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Is Intel going too fast?
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Janet Jackson's mega-deal
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World Business Newspaper

TUESDAY JANUARY 16 1996

Croatian group to seek London Stock Exchange listing

Pliva, a Croatian pharmaceutical manufacturer, could become the first east European industrial company since the 1989 fall of the Berlin Wall to obtain a primary listing on the London Stock Exchange. Pliva, indirectly owned by the Croatian government, is seeking a London listing as part of plans to raise about $52m through a share offer aimed at international investors. Page 21

Greek Prime Minister Papandreou resigns

Greek Prime Minister Andreas Papandreou, 76, has resigned after nearly two months in hospital with critical lung and kidney problems. It was earlier thought that Mr Papandreou would remain in office, but allow Akis Tsochatzopoulos, the acting prime minister, to carry on the day-to-day running of the country.

Patent battle may delay cancer tests: Two rival research groups are competing for the scientific credit – and patent rights – to last month's discovery of the second gene responsible for inherited breast cancer, but their dispute could delay diagnostic tests for the gene. Page 4

Fokker stock hit by 'hoax' loss report: Shares in Fokker, the troubled Dutch aircraft manufacturer, fell sharply on reports of a large 1995 net loss which the company quickly dismissed as a hoax designed to undermine its share price. The shares recovered later. Page 22

Apple directors to discuss restructure: Directors of Apple Computer are set to meet today to draw up plans for a broad restructuring of the personal computer company amid widespread speculation that Michael Spindler, Apple chief executive, may be forced to resign. Page 24

Flotation on agenda for Goldman Sachs: Partners of Goldman Sachs, the US-based investment bank, are to meet next weekend to discuss the possible public flotation of all or part of the firm. Page 24

Moscow expects money-changing frenzy: The planned introduction of a new US$100 banknote is expected to cause a money-changing frenzy in Russia as millions of savers rush to trade in their old bills. Page 20

German plan for growth and jobs: Germany could create 2m jobs by the year 2000 provided the government, unions and business took immediate action to improve competitiveness, reduce costs and encourage new company start-ups, the federation of German industry said. Page 2

France seeks adviser for CIC sale: The French government has started its search for an investment bank to advise it on the offer of shares in CIC, the banking group controlled by GAN, the state-owned insurance company. Page 22

German tycoon drops extradition appeal: Former German real estate tycoon Jürgen Schneider has dropped his appeal in Miami against extradition to Germany and will return to his home country to face fraud charges, his New York lawyer, Michael Lacher said.

Italian president begins poll consultation: President Oscar Luigi Scalfaro began consulting Italian political leaders to decide whether to dissolve parliament or to form a new government. Page 2

Banco Popular takes cautious line: Banco Popular Español, the smallest but most profitable of Spain's leading banking groups, raised its attributable net earnings by just over 5 per cent last year, to Pta57.48bn ($474.4m). Page 22

Setback at Neste prompts share slide: Neste, Finland's biggest industrial group by sales, reported a fall in sales and operating profits in 1995, pushing shares in the newly-listed oil, energy and chemicals company lower. Page 22

EA-Generali premium income flat: EA-Generali, the quoted Austrian subsidiary of the Italian insurance group, said its 1995 premium income was flat at Sch36.8bn ($3.63bn), reflecting intensified competition and a strategy of putting profit before growth. Page 22

Approval close on Lufthansa-SAS venture: A joint venture between Lufthansa and Scandinavian Airlines System is expected to be approved by the European Commission today. Page 3

Widow admits to killing five: A 64-year-old widow, Ifriede Blauensteiner, has confessed to five murders and is suspected of several more in a killing spree spanning a decade, Austrian police in Vienna said.

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,048.84	(-12.28)
NASDAQ Composite	994.51	(-13.72)
Europe and Far East		
CAC40	1,924.40	(+16.81)
DAX	2,359.05	(+2.60)
FT-SE 100	3,662.7	(+5.4)
Nikkei	closed	

■ US RATES

Federal Funds	closed	(5¾%)
3-mth Treas Bills: Yld	closed	(5.158%)
Long Bond	closed	(109⅜)
Yield	closed	(6.144%)

■ OTHER RATES

UK: 3-mo Interbank	6⅜%	(6½%)
UK: 10 yr Gilt	107⅛	(107½)
France: 10 yr OAT	108.88	(108.75)
Germany: 10 yr Bund	100.87	(100.65)
Japan: 10 yr JGB	closed	

■ NORTH SEA OIL (Argus)

Brent 15-day (Mar)	$16.85	(16.94)

■ GOLD

New York: Comex		
Feb	$398.1	(396.7)
London:		
close	$395.0	(399.2)

■ DOLLAR

New York lunchtime		
£	1.54665	
DM	1.44715	
FFr	4.9535	
SFr	1.16805	
Y	105.25	
London:		
£	1.5457	(1.5472)
DM	1.4466	(1.4407)
FFr	4.9483	(4.9356)
SFr	1.1654	(1.1608)
Y	105.20	(105.08)

■ STERLING

DM	2.2359	(2.2289)
Tokyo:		closed

Austria	Sch37	Greece	Dr400	Malta	Lm0.65	Qatar	QR13.00
Bahrain	Din1.250	Hong Kong	HK$20	Morocco	MDh16	S.Arabia	SR12
Belgium	BFr75	Hungary	Ft230	Neth	Fl 4.75	Singapore	S$4.30
Bulgaria	Lw120.00	Iceland	IKr230	Nigeria	Naira80	Slovak Rp	Sk85
Cyprus	C£1.20	India	Rs75	Norway	NKr20.00	S. Africa	R12.00
Czech Rp	Kc60	Israel	Shk7.90	Oman	OR1.50	Spain	Pta250
Denmark	DKr18	Italy	L3200	Pakistan	Rs40	Sweden	SKr20
Egypt	E£5.00	Japan	Y500	Philippines	Peso50	Switz	SFr3.70
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl 5.50	Syria	S£85.00
Finland	FM15.50	Kuwait	Fils650	Portugal (m'land)	Esc240	Tunisia	Din1.750
France	FFr11.50	Lebanon	US$1.50			Turkey	L70,000
Germany	DM4.00	Lux	LFr75			UAE	Dh12.00

Yeltsin takes political gamble by ordering troops to end hostage crisis

Russia attacks Chechen rebels

By Chrystia Freeland in Moscow

Russian president Boris Yeltsin took a hardline gamble yesterday, ordering commandos to launch an attack on the village of Pervomaiskoye in southern Russia, where Chechen fighters have held more than 100 hostages for nearly a week.

If the operation is successful, it could give the Kremlin leader a much-needed political boost ahead of June presidential elections. But a mounting chorus of domestic and foreign criticism yesterday suggested the military offensive could also damage Mr Yeltsin's political career.

Mr Yeltsin's decision to attack followed a week of cabinet changes which have enhanced the power of hardliners. This shift continued yesterday when he appointed a prominent hardliner, Mr Nikolai Yegorov, as his new chief of staff.

The six day stand-off between about 200 rebels and Russian forces ended yesterday after troops were ordered to storm Chechen positions in the village. Last night the Russian interior ministry claimed the operation was close to completion, but gave no details of casualties.

However, Chechen rebels in contact with their comrades under fire in Pervomaiskoye claimed last night they had pushed Russian forces out of the village after seven attempts to take it.

Mr Yeltsin's shift to the right is expected to face its first political test today when liberal parliamentarians are expected to put down a motion of no confidence in the government.

"The operation was thoroughly planned," Mr Yeltsin said. "I can't say there will be no casualties, but there will be a minimum of casualties. We must punish them [the hostage-takers] and terrorism in general must be uprooted from the Chechen land."

'Terrorism must be uprooted from the Chechen land': Boris Yeltsin gestures while talking to reporters in Moscow yesterday Picture: Reuter

Yeltsin prepares ground for re-election campaign ....Page 3
Editorial Comment ....Page 19

His bold comments were a sign that, after a two month convalescence from an autumn heart attack, Mr Yeltsin is again firmly in charge of the Kremlin and is ready to take personal responsibility for his administration's actions in Chechnya.

But his tougher approach in the Caucasus left the government vulnerable to bitter attacks from opposition politicians. Yabloko, the reformist party headed by Mr Grigory Yavlinsky, a leading candidate for the presidency, spearheaded the call for a no-confidence vote at today's first session of Russia's new parliament.

Mr Yavlinsky described the Pervomaiskoye operation as "a shame for Russia, and a shame for the president," and warned that it could undermine Russia's fragile democracy.

Mr Gennady Zyuganov, leader of the Communist party which favours the recreation of the Soviet Union, said the hostage crisis and its violent climax yesterday were "the fault of the president, his government and their ham-fisted policies".

The Communist party – the biggest single party in parliament – did not say whether it would back a no-confidence motion. A coalition between the communists and liberal parties opposed to the Chechen war would easily command a simple majority in parliament but might fall short of the two-thirds majority required to override the president's veto.

In a parliament angered by the Kremlin's behaviour in Chechnya, the government might be forced to rely on the protection of Mr Vladimir Zhirinovsky, the ultra-nationalist leader who was

Continued on Page 20

Germans snub single currency conference

Brussels suffers setback in bid to use talks to launch Euro

By Lionel Barber in Brussels

The European Commission's campaign to sell the idea of a single currency suffered an early setback yesterday with senior German politicians steering clear of a conference billed as a promotional launch pad for the Euro.

Mr Yves-Thibault de Silguy, EU monetary commissioner, put a brave face on the lack of senior German representatives at the three-day event next week. He noted that Germany, along with Austria, were the only two countries that had already started preparations for the transition to monetary union.

But other Commission officials said the reluctance of Germans to attend probably reflected the difficult domestic debate in Germany, where some opposition politicians are debating a delay in the introduction of the single currency beyond the target date of 1999.

Mr Helmut Schmidt, former German chancellor and co-founder of the European Monetary System, declined an invitation to the conference, while Mr Karl Otto Pöhl, former Bundesbank president, initially accepted but then withdrew.

The low-key German attendance contrasts with the presence of political leaders from France, Belgium and the Netherlands, including Mr Giscard d'Estaing, former French president and EMS co-founder, Mr Jacques Delors, former European Commission president, and the four prime ministers of the Benelux countries and Italy.

The best-known German political representatives attending are Mr Jürgen Stark, deputy finance minister, and Mr Otto Lambsdorff, former leader of the Free Democrats, according to a list of guests published yesterday.

The Commission-sponsored conference is intended to prepare the ground for a campaign to sell the Euro to the public. It will involve at least 400 people from politics, industry, finance and the media, as well as youth and women's leaders.

The idea, said Mr de Silguy, is to marshal arguments in favour of the single currency and discuss how best to communicate them to citizens. "You have to learn to love the Euro," he said.

The conference, which opens on Monday evening, will also include discussions on the practical difficulties involved in the introduction of Euro notes and coins, which will be phased in between 1999 and 2002.

But it comes amid mounting evidence of a slowdown in Europe and last week's surprise news that Germany – hitherto the only large country to meet the Maastricht treaty's criteria for Emu – exceeded the public deficit target in 1995.

Mr Jacques Chirac, the French president, announced yesterday that he had instructed his government to prepare new measures, in co-ordination with Germany, to revive their economies.

Slowdown hits EU, Page 2

Report raises hopes of deal in Deutsche Postbank battle

By Peter Norman in Bonn

A possible compromise in the bitter battle over the future of Deutsche Postbank, the German postal savings bank, emerged yesterday when the UK investment bank Schroders recommended that Deutsche Post, the German post office, should take a stake in Postbank but not be allowed a controlling interest.

Schroders, commissioned by the German government to advise on Postbank's future, concluded that the long-term interests of Post and Postbank would be best served by independent managements concentrating on their respective areas of business. The Schroders report put Postbank's potential stock market value at between DM4bn and DM5.1bn ($2.7bn-$3.5bn).

This approach would also maximise the likely proceeds from the eventual privatisation of the two companies.

After receiving the report, Mr Wolfgang Bötsch, the German post and telecoms minister, suggested that Deutsche Post should take a stake of "not more than 25 per cent plus one share" in Postbank. Under German law, this would give the Post a blocking minority allowing it to stop certain business decisions by Postbank but would not allow Post control of Postbank.

In an indication of continuing tension, a Postbank spokesman yesterday disclosed that the Post stake in Postbank envisaged by Mr Bötsch was greater than that suggested by Schroders. Postbank said the UK bank had suggested a stake of "somewhere between 15 and 20 per cent".

The Schroders proposals, if accepted by the Bonn cabinet, could bring an end to a bitter takeover battle between the two sister organisations which are still 100 per cent government owned. However, until now the Free Democrat junior partner in the Bonn coalition has opposed the Post holding a Postbank stake.

Last autumn, Deutsche Post astonished the German business world by launching a hostile bid of DM3.1bn for 75 per cent of Postbank, with the aim of securing 40 per cent of the capital for itself and sharing the other 35 per cent between Deutsche Bank and the Swiss Reinsurance company. Postbank countered by rejecting the bid and seeking partners of its own in banking and insurance to take 35 per cent of its capital and help develop its services.

The report, which was handed to Mr Bötsch yesterday, underlined the need for the two organisations to reach a long-term co-operation agreement.

This would allow Postbank to sell its services over post office counters in return for the bank closing its own specialised outlets. Both companies would change their statutes to include a joint marketing agreement and each would be given the right to name a member of the other company's supervisory board.

CONTENTS

Rival US business magazines start war of insults

By Tony Jackson in New York

Two of the US's most distinguished business magazines, Forbes and Fortune, have begun trading insults.

The outbreak of antipathy was prompted by Fortune's latest cover story which attacks Forbes's owner, the US presidential candidate Mr Steve Forbes, saying he is unfit for office.

According to Fortune, Mr Forbes personally changes stories in his magazine to ensure they are nice to companies which are big advertisers. Fortune also criticises a real estate business run by Mr Forbes for using "widely discredited" sales methods, and accuses him of "aggressive tax avoidance".

The tax accusation is particularly sensitive, since the best-known plank of Mr Forbes's presidential campaign is a proposed flat tax of 17 per cent. Fortune estimates Mr Forbes's wealth at $439m, a figure which should qualify him for the annual list which his magazine publishes of the 400 richest Americans, although his name does not appear.

Forbes yesterday dismissed Fortune's attack as sour grapes. "What can you expect from an also-ran business publication like Fortune?" it asked. "Fortune can't compete with Forbes directly, so, in desperation, it is reduced to printing scurrilous, partisan cheap shots."

Fortune quotes former Forbes writers as claiming Forbes has a list of "untouchable" companies, which cannot be criticised because they place too many advertisements. These are alleged to include General Motors, Ford and General Electric. It also quotes Forbes executives as saying such allegations are nonsense.

Fortune alleges Mr Forbes exploits loopholes to avoid paying tax on land he owns in New Jersey. It also claims the flat tax plan would benefit his company as well as Mr Forbes personally.

The accusation of sour grapes has a certain weight. Fortune, owned by the media giant Time Warner, has a US circulation of

Continued on Page 20

Commission delays publishing results of business and consumer survey

Slowdown hits confidence in EU

Business and consumer confidence has slipped in the face of mounting evidence of a slowdown in the European economy, Mr Yves-Thibault de Silguy, EU monetary affairs commissioner, said yesterday.

However, he blamed the pause on currency turmoil last spring and insisted there was no evidence of a wider downturn in the business cycle. "The fundamentals are sound," he said.

His remarks precede publication this week of the European Commission's monthly survey of business and consumer confidence which is almost certain to show a further decline in sentiment, particularly in countries like Germany and France. Confidence has fallen steadily in the EU over the past year.

The release of the results has been delayed to allow officials to consult about how to present them. There is concern among some that the survey should not paint too gloomy a picture.

But the falling confidence is provoking fears among economists that parts of Europe could be talking themselves into a downturn. As Mr Peter Praet, chief economist of Belgium's Générale de Banque says: "There is a real risk of a vicious circle developing, where latent consumer pessimism causes companies to revise down their investment plans, which has a broader impact."

These fears have been prompted partly because of the changing nature of European economic growth.

For the past two years the recovery has been boosted by a strong upturn in exports. But this surge is slowing: this year the Organisation for Economic Co-operation and Development thinks exports may only rise by 6.7 per cent, compared with 9 per cent in 1994 and 7.7 per cent last year.

With import growth projected to accelerate, the OECD believes net exports are likely to provide little growth this year. It argues that much of the growth in Europe this year will need to come from domestic sources like consumer spending and investment – both dependent on confidence.

Some Commission officials think confidence may rise soon, not least because most of the economic fundamentals remain healthy. Tax cuts in Germany and the UK this year should also trigger a rise in spending, it is hoped.

Other economists are doubtful. As Mr Praet point out, many factors affecting sentiment seem related to longer term structural issues rather than short-term economic prospects. Unemployment, for example, is a key factor causing consumer insecurity, particularly in Germany and France.

Cuts in government budgets may also be depressing consumers' mood. The most dramatic slide in confidence over the past year has been in France, Belgium and Italy – currently gripped by battles over cuts in the welfare state.

On the business side, the factors affecting confidence are also subtle. Many companies are undoubtedly concerned about short-term demand. In France, for example, the pharmaceuticals group Rhône Poulenc, the utilities and construction group Lyonnaise des Eaux, and the banking group Société Générale have all issued warnings in the past few days alone.

Mr Marc Viénot, chairman of Société Générale, told his board last week that he expected group results for 1995, which are due to be finalised in March, to be only at the same level as in 1994.

In Germany, many engineering companies are also downbeat. For example, Mr Hans Meinhardt, chairman of the Linde forklift truck and plant construction company, said recently his company "noted a significant decrease of economic growth".

This downturn is not universal in Germany: the computer industry is buoyant, while electronics companies are at least moderately optimistic. The Siemens electronics company, Germany's second largest industrial concern, is also remarkably optimistic about the business outlook.

The decline in confidence in Germany seems triggered almost as much by a broader fear about longer term competitiveness, rather than simply short-term demand.

And, as the Commission itself points out, the experience of last year's currency turmoil also appears to be affecting sentiment in "strong currency" countries like France and Belgium.

Mr Patrick Artus, chief economist of the French group Caisse des Depots et Consignations, believes that even though the larger swings in currencies have since been reversed, the memory has left companies nervous. The experience of becoming overly indebted in the last recession has also made French companies reluctant to invest.

Some economists conclude from this that there is unlikely to be any rapid solution to Europe's blues. Others argue that it might imply that sentiment itself is not always a good guide to growth.

Either way, it seems that the Commission's surveys are set to attract close attention over the coming year – however it choses to present them.

Gillian Tett, Wolfgang Münchau, Andrew Jack and Lionel Barber

The planned European central bank's monetary policies must not be jeopardised by an obligation to intervene to keep the single currency stable against other exchange rates, Mr Hans Tietmeyer, president of the Bundesbank, said, writes Andrew Fisher in Frankfurt. Instead, the system – now in preparation – to handle links between the European monetary union and non-Emu currencies in Europe should have rules to ensure exchange rates could be adjusted quickly if they were subject to severe market pressures.

"Experience has shown that intervention can anyway only play a limited role in stabilising exchange rates," he said. The question of the ins and outs (countries in and outside Emu) was gaining in significance, he said, since not all European Union countries would join at the start. The currency system linking Emu and non-Emu currencies had also to take account of differences in the latter, especially when the EU was expanded.

Chirac (right) with Kohl at their Baden-Baden meeting last month. The French leader wants "co-ordinated measures" to boost both economies Reuter

Chirac wants joint action with Bonn

By David Buchan in Paris

President Jacques Chirac said yesterday he had instructed the French government to prepare new measures, in co-ordination with Germany, to boost the flagging economies on both sides of the Rhine.

He told a New Year press reception he had talked to Chancellor Helmut Kohl of the need for "co-ordinated measures." But officials could give no details of what they might be. The president's discussion of the matter with Mr Kohl in Paris last Thursday after the funeral of ex-president Francois Mitterrand had been brief and general, they said.

Mr Chirac said France and Germany were both suffering from the same slowdown in growth – jeopardising, according to economists, their ability to meet the fiscal disciplines required for European monetary union.

In the wake of widespread predictions that the French economy may grow this year at only half the government's original 2.8 per cent forecast, Mr Chirac said Mr Alain Juppé's government would take further measures in addition to those last month to encourage the French to dip into their high average savings and spend more.

"It [the government] is going to take other measures," Mr Chirac said yesterday. "I have asked it do so."

But officials in Paris ruled out any attempt to co-ordinate with Germany cuts in interest rates, because these were under the control of the independent Bundesbank and Bank of France. They also pointed out that the French government could not take any action that would complicate the already very difficult task of reducing the overall public deficit to 4 per cent of gross domestic product this year.

Playing down expectations of any grand new Franco-German economic initiative, a Juppé aide said the president's remarks yesterday stemmed from "the realisation that France and Germany now have a common problem in the slowdown of their economies and their lack of budgetary room for manoeuvre to deal with it".

She pointed out that "the chief causes are different – in Germany a lack of competitiveness hitting jobs and in France the very high rate of savings restraining consumption".

The remedies would therefore be different, she stressed. But because of the common desire on both sides of the Rhine not to let the economic slowdown blow monetary union off course, France and Germany might take measures in the same time frame of "the next few weeks".

Dismissing as "froth" talk of postponing the target of meeting the Maastricht criteria for monetary union by 1997, Mr Chirac vowed to press on with unpopular welfare reforms. He said that restoring "health to public finances is the unavoidable precondition for a dynamic economy and national independence".

Brushing aside, too, speculation about Mr Juppé's future after December's public sector strikes, Mr Chirac said France had "a good government with a good prime minister at its head". But he went on to say that if the government were to carry out reform successfully it needed to show have more greater dialogue with the people and show more "urgency" in the fight against unemployment and social deprivation.

The Crédit Lyonnais bank yesterday forecast growth of 1.5 per cent in France this year, in the middle of the 1.3-1.7 per cent range which the Finance Ministry was yesterday reported to be contemplating for 1996.

Scalfaro to take his time on poll decision

By Robert Graham in Rome

President Oscar Luigi Scalfaro yesterday began consulting Italian political leaders to decide whether to dissolve parliament or to form a new government.

The president has chosen the most elaborate of all the available means of consultation, indicating he intends to take his time over one of the toughest decisions he has faced since becoming head of state in 1992.

The process is expected to last at least two weeks. It could take even longer if President Scalfaro decides to ask someone to carry out soundings on the possibility of forming a government.

This device is a means of double-checking whether a government would enjoy a parliamentary majority. It could prove especially useful in the current parliament where the centre-left and right-wing alliances are almost even with the balance held by the populist Northern League and Reconstructed Communism, formed from the hardline of the old Communist party.

Despite uncertainties about the outcome, the financial markets have remained remarkably sanguine since Mr Lamberto Dini confirmed on January 11 he would be resigning as Italy's 54th post-war premier. Yesterday, the lira even strengthened slightly against the D-Mark, closing at L1,087.

A total of 26 people have been asked to go to meet the president at the Quirinale Palace, the head of state's official residence. As tradition demands, President Scalfaro began by listening to the views of the surviving former heads of state – ex-Presidents Giovanni Leone and Francesco Cossiga.

But the key player is likely to be Mr Massimo D'Alema, leader of the Party of the Democratic Left (PDS) and the dominant figure in the centre-left alliance that backed the outgoing Dini government. He is under strong pressure to opt for elections by June from the left of his party as well as from Mr Romano Prodi, the Bologna economics professor adopted last year as head of the centre-left alliance.

Opting for early elections would probably mean parliament being dissolved shortly after the opening on March 29 of the EU Inter-Governmental Conference. The other alternative would be to form a broad-based government which would last for up to two years, during which the parties would undertake to push through a series of institutional reforms to modernise the Italian state.

Last week's debate in parliament that forced Mr Dini's resignation showed for the first time a willingness by the main parties to consider an accord on these reforms. However, if such a deal is to materialise, the political leaders will have to move quickly from vague statements of intent to discussing concrete detail.

Until now this legislature, elected in March 1994, has been notable for the absence of any co-operation across the political divide on key institutional issues.

BDI federation joins national debate on economy with eight-point programme

German industry unveils growth plan

By Peter Norman in Bonn

Germany could create 2m jobs by the year 2000 if the government, trade unions and business take immediate action to improve competitiveness, lower costs and encourage company start-ups, the Federation of German Industry (BDI) said yesterday.

Joining the current fashion, set by trade unions and political parties, for unveiling multipoint programmes to boost growth and unemployment, the BDI said binding commitments to cut business taxes and thoroughly reform Germany's complex tax and social security systems could have a "signal effect", boosting investment.

The eight points, outlined in Bonn yesterday by Mr Hans-Olaf Henkel, the BDI president, contained much that business has demanded before to shake up Germany's rigid economy. But against a background of rising unemployment and stagnating output, yesterday marked the first time that the BDI had pulled its ideas together into a comprehensive package and specified an employment goal.

There were some new elements in the industry package.

Mr Henkel called for social security contributions to be cut to 37 per cent of incomes from the present record level of 41.1 per cent. Local workers' councils should be guaranteed a bigger role in negotiating wages and conditions, which at present are negotiated nationally by trades unions. In addition, he said, every new law should be checked to ensure that it had no negative effects on employment.

On more familiar ground, Mr Henkel called on employers and unions in the engineering and electrical sectors to begin immediate negotiations over more flexible working hours so that machines could run for longer.

He also urged cuts this year in Germany's generous sickness benefit scheme.

It was the job of industry to make itself more competitive, he said, by attacking markets in fast growing parts of the world and boosting research and development. The government had to act this year to abolish wealth tax and the local trading capital tax. He also proposed a number of detailed tax breaks to encourage entrepreneurship and new company start-ups.

Mr Henkel further called on state and local authorities to give a bigger push to privatisation, claiming that there were still 100,000 companies in public ownership in Germany.

The Bonn government has promised measures to boost jobs and growth by the end of this month. Although the BDI proposals have emerged rather late, they will help fuel discussions under way between the various Bonn ministries and among employers and trade unions.

At a press conference in Bonn, Mr Henkel said record insolvencies and rising unemployment had highlighted the need for a programme such as that advanced by the BDI. But he expressed doubts about whether the government would be capable of turning such plans into action.

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Unions warn of strikes over jobs

By Wolfgang Münchau in Frankfurt

German trade unions yesterday warned employers that they might face industrial action if they rejected union proposals for a negotiated trade-off between wage restraint and job creation.

The warning by several unions comes ahead of a meeting scheduled for Thursday between leaders of IG Metall, the metalworkers union, and Gesamtmetall, the engineering employers federation.

In a temperamental encounter last week, the two sides clashed over the union's offer of wage restraint in exchange for a commitment by employers to hire 330,000 new workers.

Other unions, including the OTV public sector union, have produced their own "alliance for jobs" schemes. A trade-off between jobs and pay is regarded within the trade union movement as the most effective way to combat unemployment. Opinion polls suggest that this view is shared by most Germans.

Mr Herbert Mai, head of OTV, said in a newspaper interview that he could "not completely rule out a strike" if employers did not shift their stance. Ms Margret Moenig-Raane, head of HBV, the banking and insurance union, said failure to agree on a package would "embitter union members to such an extent that we can expect intense conflicts", a thinly veiled warning of a strike.

Mr Werner Stumpfe, general manager and president-elect of Gesamtmetall, said yesterday: "I don't view this as a threat which would keep us from talking to IG Metall. You can't form an alliance on the basis of ultimatums."

Other unions, including IG Metall itself, warned that the offer of wage restraint, which implies a wage rise in line with inflation, would hold only if employers committed themselves to hiring more workers. Failure would result in wage demands that might be higher than usual.

The debate is most advanced in the metal industry, but no deal appears imminent since Gesamtmetall rejects the notion of a contractual commitment for more jobs. Last week, the federation put forward a series of suggestions to improve flexibility in the labour market, but stopped well short of a binding commitment.

Next week, Chancellor Helmut Kohl is due to meet union and employer representatives to discuss the "alliance for jobs".

EUROPEAN NEWS DIGEST

Turkish parties reject Islamists

The first round of formal consultations on forming Turkey's next government ends today with virtually no chance that Mr Necmettin Erbakan, leader of Turkey's Islamist Refah party, will succeed in assembling a working majority in parliament. Refah took the most votes in December's inconclusive general elections but fell far short of a majority, winning only 158 out of 550 seats in parliament.

Mr Erbakan has already met the leaders of three other parties only to be turned down by all of them. Today he will meet the leader of the centre-left People's Republican party (CHP), the smallest of the five parties in parliament.

Commentators now expect President Süleyman Demirel to call on Mrs Tansu Çiller, outgoing prime minister, to attempt to form a new government. Her centre-right True Path party is the second largest group in parliament. But the conservative Motherland party has already rejected her offer to join a caretaker administration before calling fresh elections in six months. *John Barham, Ankara*

Spying-row weakens Polish PM

Mr Jozef Oleksy, the Polish prime minister who has been accused of spying for Russia's security services, resumed his duties yesterday after a short holiday amid speculation that he was considering resigning.

Evidence against Mr Oleksy is still being examined by the military prosecutor's office. Mr Oleksy has protested his innocence but admitted social contacts with Mr Vladimir Alganow, a Russian agent.

An opinion poll published at the weekend suggested that 31 per cent of Poles thought that Mr Oleksy should take a holiday until the case is cleared up, while 19 per cent thought he should resign. Another 32 per cent believed the prime minister should carry on.

Yesterday, in an indication of some confusion in the government camp, Mr Oleksy was quoted as saying that he would not resign in the near future while Ms Alexandra Jakubowska, the government spokeswoman, did not rule out the possibility.

Meanwhile the Solidarity-based opposition is currently working to prise the Peasant party (PSL), the junior partner in the ruling coalition, away from Mr Oleksy's Left Democratic Alliance (SLD), the former communists. This would open the way for the PSL to demand the post of prime minister from the SLD in the event of Mr Oleksy's resignation, as the price of continuing loyalty. *Christopher Bobinski, Warsaw*

Kiev raises fuel prices and rents

Ukraine has raised energy tariffs and rents in a politically charged move intended to cut the government's budget deficit.

Household coal and gas prices went up 24 per cent and 34 per cent respectively, while rents and communal services increased from 40 per cent to 60 per cent of cost recovery. Another increase is scheduled for April. Despite the rises, the government does not expect inflation to go much above the 4.6 per cent monthly rate registered in December.

The International Monetary Fund has made reducing Ukraine's budget deficit a condition for further aid, but the government is softening the blow by raising prices later and more gradually than originally planned.

To stem public protest, the government raised pensions 192 per cent last week and sought to engage trade unions in a political dialogue. Even so two coal mines in Donetsk, capital of the industrial Donbass region, last week went on strike to force the government to pay back wages.

Gas tariffs below the market rate and the inability of industrial users to pay their bills has put Ukraine more than $200m in the red on its payments to Russia, the main gas supplier. Debt talks are complicated by a row over Ukraine's plans to raise the transit fee on its Druzhaba pipeline, currently the only route Russian gas producers have to Europe. *Matthew Kaminski, Kiev*

Slovenia announces debt deal

Slovenia has taken an important step towards rescheduling its share of former Yugoslavia's commercial debt.

The Slovenian Finance Ministry said yesterday that it had won the necessary approval of at least two thirds of the country's 400 commercial bank creditors for a package under which it would pay back 18 per cent of its debt. The total value of the debt is $4.6bn, of which Slovenia will pay $710m.

At the start of negotiations two-and-a-half years ago, the banks demanded that Slovenia should pay 28 per cent of the debt, while Slovenia offered initially to pay 14 per cent. The deal must now be approved by parliament, said Mr Mojmir Mrak, Slovenia's chief negotiator. Under the terms of the agreement Slovenia would issue two bonds during the second quarter this year. One would cover 18 per cent of the unmatured principal, while the second would cover 18 per cent of the matured principal and past due interest. Interest would be paid twice yearly up to 2006. *Reuter, Ljubljana*

Luxembourg mobile phone bids

Eight groups have filed declarations of interest to operate a second GSM mobile telephone network in Luxembourg, according to the Grand Duchy's Ministry of Communications.

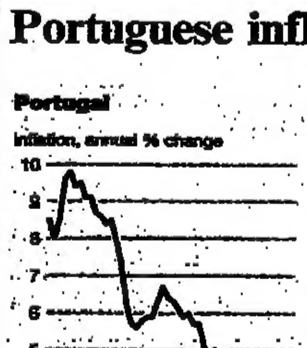
Mr Paul Schuh, a ministry counsel, said interested parties were European and American groups but did not reveal their identities. He added that the next step in the procedure would be a debate and then a vote in parliament on a pending new law governing telecommunications.

Mr Schuh could not say when the vote might be, but he said that the law must be in place before the process of financial bids for the licence can begin. Mr Schuh also said that an independent consultant would analyse the bids. Factors influencing the choice would include the overall price paid to the government, the quality of service to be provided to subscribers, the rates and the degree of innovation involved. "It will not simply go to the highest bidder," he said.

On Friday, the Belgian telecommunications group, Telinfo, said it had made a bid with France Telecom Mobile International, a unit of France Télécom, for Luxembourg's second GSM licence. Luxembourg's first GSM licence is owned by the government's P&T telecoms company. *Reuter, Brussels*

ECONOMIC WATCH

Portuguese inflation falls



Portugal's year-on-year inflation rate fell to 3.4 per cent in December from 3.9 per cent in November and 4.0 per cent a year earlier, the National Statistics Institute said yesterday. Average annual inflation dropped to 4.1 per cent last month, against 4.2 per cent in November and 5.2 per cent in December 1994. The government, which agreed to a 4.25 per cent public sector pay deal last week, has forecast annual average inflation will fall to 3.5 per cent in 1996. Monthly inflation dropped by 0.2 per cent in December, compared with a 0.1 per cent increase in November. Analysts forecast year-on-year inflation, which is at its lowest level for more than 20 years, will fall below 3.0 per cent by February, leading to reductions in the central bank's money-market intervention rates. *Peter Wise, Lisbon.*

■ Norway's trade surplus for December widened 65 per cent to NKr6.48bn ($1bn) from NKr3.92bn a year earlier. In the year as a whole, Norway's trade surplus widened 4.2 per cent to NKr52.1bn from NKr50bn in 1994.

Yeltsin prepares ground for re-election campaign

By John Thornhill in Moscow

Speculation heightened yesterday that President Boris Yeltsin intends to seek re-election in June after it emerged that staff had already been appointed to run a national campaign headquarters.

The appointment of Mr Oleg Soskovets, first deputy prime minister and trusted presidential ally, to run the headquarters makes a run for the presidency likely. However, it was not clear whether the headquarters was intended to be an impartial organisational committee or a personal launchpad for Mr Yeltsin.

Since last month's parliamentary elections – in which the Communists and ultra-nationalist parties received the most votes – Mr Yeltsin has adopted a more hardline stance and may move further along that road to match the presumed mood of the country if he decides to stand.

After the elections Mr Yeltsin lashed out at "saboteurs" in the economics ministry whose mistakes had undermined the credibility of reform. But this sharp shift in rhetoric has not yet been followed by any radical change in policy.

However, he moved quickly to appoint the hardline Mr Yevgeny Primakov to the post of foreign minister following the elections.

The increasingly hardline nature of Mr Yeltsin's revamped administration was given further edge yesterday when he appointed Mr Nikolai Yegorov as head of his personal administration. The president said yesterday he expected to make further changes to his government, although none would be "radical".

Nikolai Yegorov, known as a hardliner, appointed yesterday as Mr Yeltsin's new chief aide Reuter

Mr Yegorov, the former nationalities minister who was one of the main supporters of the invasion of Chechnya, was sacked by Mr Yeltsin last summer following his botched handling of the hostage crisis in Budennovsk.

Mr Yegorov, who is expected to set a more nationalist agenda for the president, replaces the liberal Mr Sergei Filatov who resigned from his post last week after being sidelined for many months.

Mr Yeltsin was non-committal about whether he would seek re-election when directly questioned by reporters yesterday. "I may, but I may not. I am still thinking," he said, indicating he would announce his decision next month. By instinct, the combative Mr Yeltsin appears inclined to stand but his popularity has been badly dented by the continuing conflict in Chechnya and he has been languishing in the latest opinion polls.

His wife, Naina, has publicly said she does not want him to run again, fearing for his health after two recent heart attacks. The 64-year-old Mr Yeltsin has already lived seven years longer than the average lifespan for a Russian man.

Opinion polls suggest Mr Yeltsin trails several other potential presidential candidates.

Mr Vladimir Zhirinovsky, the leader of the ultra-nationalist Liberal Democratic party, has already declared he will contest the presidential election and commands a core of extremist support. But the Kremlin is thought to be more concerned about the challenge from Mr Alexander Lebed, the populist former army commander who has been adopted as a presidential candidate by the nationalist Congress of Russian Communities.

Mr Lebed may be a particular beneficiary of continued instability in the Caucasus, given his tough law-and-order message and sharp criticisms of the Defence Ministry.

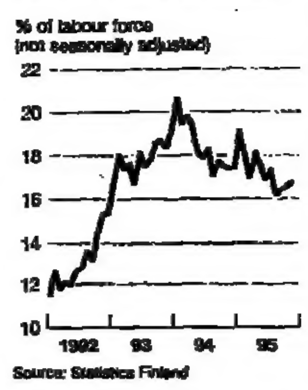
The Communist party seems likely to nominate its leader, Mr Gennady Zyuganov as a presidential candidate, despite some reservations about his lack of charisma.

Mr Grigory Yavlinsky, the youthful head of the liberal Yabloko faction, has already made it clear he intends to raise the flag for the reformers.

Finland struggles for jobs

By Christopher Brown-Humes in Stockholm

Finnish unemployment



Source: Statistics Finland

Hopes that unemployment in Finland – among the highest in Europe – would fall significantly this year were jolted yesterday when preliminary figures showed the jobless rate rose in December towards 20 per cent.

The Ministry of Labour said 19.6 per cent of the workforce was out of work last month, up from 18.4 per cent in November. Although a rise was expected for seasonal reasons, the jump was bigger than analysts expected.

The ministry's figures paint a more pessimistic picture than those from Statistics Finland, which are more internationally comparable. These are expected to show unemployment running at around 17 per cent at the end of 1995, down from 18.4 per cent a year earlier. But both figures show seasonally-adjusted unemployment falling more slowly than expected because of slower economic growth and a bigger-than-expected rise in the labour force.

This will dismay the five-party coalition government, led by the Social Democrat prime minister, Mr Paavo Lipponen, which made halving unemployment to 9 per cent its top priority when it took office last year.

The Ministry of Finance acknowledged yesterday that it would have to revise upwards an earlier forecast of a 14.5 per cent unemployment rate for 1996. Merita Bank, the country's leading bank, has already lifted its prediction for 1996 to 16 per cent from 15.5 per cent.

The Finnish economy has recovered sharply from a deep slump in the early 1990s, although without any significant impact on unemployment. The worry is that with economic growth now tailing off, job creation will slow. Economic growth of around 3 per cent is expected in 1996 after 4.5 per cent last year.

"Companies are nervous about prospects in their main European export markets. They are holding back on investment plans and on hiring new people," said Mr Juha Ahtola, Merita Bank's chief economist.

He also warned that political pressures on the government were building. "The government is under pressure to explain why unemployment has hardly fallen at all while it has been in office," Mr Ahtola said.

But Mr Seppo Suokko, deputy general director of the economics department of the Ministry of Finance, said: "We believe the fundamentals favour lower unemployment. Interest rates are coming down, we have a very moderate two-year wage agreement, and inflation, at just 0.3 per cent, is the lowest in Europe".

Jobs are being created in the manufacturing and some services sectors, but certain sectors, such as banking, continue to be hit by big job losses.

Portugal's poll losers in crisis

By Peter Wise in Lisbon

Portugal's opposition Social Democrats (PSD) face a potentially damaging leadership crisis following the defeat of Mr Aníbal Cavaco Silva, the conservative candidate in Sunday's presidential election.

The former prime minister, who dominated the centre-right party for the past decade, is retiring from politics, leaving the PSD without an authoritative leader as it recovers from its second election defeat in less than four months.

Mr Luís Mira Amaral, a senior PSD official and former industry minister, called yesterday for an extraordinary congress to "refresh and renew" the leadership of the party, which had been in government for 16 years until the Socialists won a general election last October.

Another party leader, Mr Alberto João Jardim, head of the Madeira regional government, urged the PSD to forge an alliance with the Popular party (PP), which more than doubled its vote to 9.1 per cent in the October election by appealing to right-wing supporters of the PSD.

The PP successfully tapped a deepening vein of Euro-scepticism to win 15 of the 230 seats in parliament, up from five seats previously. Mr Manuel Monteiro, its 36-year-old leader, is a radical populist who has begun to challenge the PSD's domination of the right.

Mr António Guterres, the Socialist prime minister, has made the PSD's opposition role more difficult by adopting almost identical economic policies.

The PSD also shares the government's goal of ensuring Portugal a place among the first group of countries to adopt a single European currency. The party will find it difficult to justify attacking spending cuts made in the name of the country's convergence towards economic and monetary union. This will leave the field open for the PP to lead condemnation of unpopular budget measures.

Mr Cavaco Silva managed to subdue the PSD's traditional faction-fighting for 10 years before stepping down as leader a year ago and subsequently running for the presidency. He was defeated on Sunday by Mr Jorge Sampaio, the Socialist candidate.

Mr Cavaco Silva was succeeded by Mr Fernando Nogueira, his long-standing deputy, who took on the thankless task of leading the PSD into a general election as its popularity waned amid allegations of corruption and inefficiency.

After losing the election, the party maintained a semblance of unity in support of Mr Cavaco Silva's presidential candidacy. A challenge to Mr Nogueira's leadership, criticised by PSD opponents as too low-key, could come from Mr José Manuel Durão Barroso, the former foreign minister. He lost narrowly to Mr Nogueira in the contest to succeed Mr Cavaco Silva.

Commission to approve Lufthansa-SAS venture

By Emma Tucker in Brussels

A joint venture between Lufthansa and Scandinavian Airlines System is expected to be approved by the European Commission today, following agreement by the two airlines to reduce the number of flights they offer between Germany and Scandinavia.

Brussels said the two airlines would have to relinquish routes and airport slots "where it hurts" so that other airlines would be able to offer competing services on popular flights at peak travel times.

Lufthansa and SAS already dominate routes such as Düsseldorf to Copenhagen and Stockholm, and Frankfurt to Stockholm and Oslo. The competition authorities in Brussels were worried that the joint venture would make it impossible for newcomers to enter the market.

The airlines now say they are prepared to hand over some of slots to competitors who want entry to the market. "This was the most severe undertaking that we had to agree to," said SAS yesterday. New entrants will also be bound by certain conditions. For example, they will have to hand the slots and routes back if they decide to stop using them and will not be allowed to change destinations.

The strategic alliance announced last May involves co-ordinating flights and marketing activities. Lufthansa and SAS will each have 50 per cent of the joint venture, which is expected to come into force early this year.

Brussels, which has overseen a gradual liberalisation of Europe's airline sector, wants to see more flights on main routes between Germany and Scandinavia in the next five years. It has also demanded that the two airlines allow new entrants to participate in their frequent-flyer programmes.

In addition each must modify previously negotiated alliances with other airlines in return for approval of the joint venture. For SAS this means terminating co-operation agreements with Austrian Airlines and Swissair. Lufthansa must end its alliance with Transwede, Sweden's second largest airline after SAS, and modify an alliance with Finnair.

Ukrainian chocolate plant tastes success

By Matthew Kaminski in Lviv, Ukraine

An aroma of chocolate hangs deliciously in the air around the Svitoch confectionery plant in Lviv's industrial district. Inside the factory, caramel drops fly past on conveyor belts and chocolate oozes from a vat like molten steel.

Svitoch was an early starter on the road to privatisation. At the height of Soviet *perestroika* in 1988, the workers' collective rented the factory from the state. Two years later, the employees bought the business outright – one of the first privatisations in the then Soviet Union.

"Everything used to be dictated from Moscow," says Ms Marina Kostyshyna, deputy director for finance. "It's much more interesting now. We choose the best supplier, the best buyers, try to make working conditions better to improve quality. It takes a lot of work to keep the market we now have."

The learning curve was steep. Svitoch has an $80m annual turnover, a steady profit and a 25 per cent market share in Ukraine – it is the unquestioned confectionery king in a consumer market of more than 50m people.

Exports account for 12 per cent of production, and the focus is being shifted from over-dependence on Russia and Kazakhstan – the target markets under Soviet central planning – to Poland and Hungary. Total output fell from 50,000 tonnes in 1990 to 36,000 tonnes this year, but the management says that under the Soviet system the factory simply produced all it wanted to produce. "The market didn't dictate what we should make. Now it does," says Ms Mariya Protz, who oversees the plant's four facilities across Lviv.

Competition is increasing – Cadbury has built a strong distribution network and Kraft Jacobs Suchard, the Swiss confectionery concern, this year took an 88 per cent stake in a confectionery manufacturer in central Ukraine. Industry analysts say that experience in central Europe shows that local loyalty eventually remains with cheaper and better known products – but that those products have to improve quality.

Svitoch – started by Zimant and Gamer, a Polish confectionery group, in 1876 – decided to improve marketing and replace its Soviet-era packaging. Slovak packing machines were bought in 1992 and a more efficient distribution network is being set up. It added and dropped brands and started tapping into the lucrative Christmas season with Santa Claus packaging themes and Advent calendars.

As the seat of Ukrainian nationalism, Lviv played a leading role in gaining independence. But nationalists feared that privatisation and a capitalist economy might recreate the pre-1940 social stratification or allow the old Communist élite to gain control of the plum assets.

But Svitoch passed the political litmus test with an equitable sale to the workers' collective of 2,100 women and 900 men.

Since then, the overwhelmingly female management – men fill only the two most politicised positions: director and trade union head – has defied some western critics of insider privatisation by exhibiting the ability and will to change its habits quickly.

At first sceptical, Ms Kostyshyna is seeking a way to bring western investors on board. Svitoch had resisted Jacob Suchard's overtures to take a majority stake, but she says it may be open to a minority holding by one of the venture capital outfits today setting up shop in the Ukrainian capital, Kiev.

Patent battle may delay cancer test

By Clive Cookson, Science Editor

Two rival research groups are competing for the scientific credit – and patent rights – to last month's discovery of the second gene responsible for inherited breast cancer. Their dispute could delay diagnostic tests for the gene.

An international team based at the Institute for Cancer Research in London was first to publish details of the gene, called BRCA2, in a paper received by the scientific journal Nature on December 5.

The UK Cancer Research Campaign, the charity that funds the institute, held a press conference on December 20, to announce its scientists "have won the race to isolate the second breast cancer gene" and CRC Technology, its technology transfer company, had filed a patent application.

On the same day, however, Myriad Genetics, the US biotechnology company whose scientists identified the first breast cancer gene BRCA1 in 1994, put out a press release announcing that it too had filed a patent application on BRCA2. This "covers all diagnostic and therapeutic uses" of the second gene, it said.

Myriad intends to launch a diagnostic test for BRCA1 this year (at an expected price of about $900). It will go on to develop a test incorporating both BRCA1 and BRCA2, which would detect most women who have a genetic predisposition for breast cancer.

> The race between the two teams was evidently so close it will be hard for either to claim a clear win

Defects in the two genes are thought to be responsible for about three-quarters of inherited breast cancer, which accounts for about 5 per cent of all breast cancer and kills many thousands of women a year worldwide.

Ms Emma Plummer, a business manager at CRC Technology, said: "We have had preliminary discussions with Myriad [about resolving the competing patent claims] but our relative positions have not yet been established."

Myriad confirmed talks were under way. Both sides said they were anxious to avoid a prolonged "patent battle" through the courts, which could delay introduction of a combined test for inherited breast cancer.

Observers say the race between the two teams to isolate BRCA2 was evidently so close that it will be hard for either to claim a clear win.

The case is muddied further by the fact that other researchers – at the Sanger Centre, Cambridge, in the UK and Washington University, St Louis, in the US – released genetic information about BRCA2 openly on the Internet in November, to protest against gene patenting.

De Klerk party rethinks its role

By Roger Matthews in Johannesburg

South Africa's National party, which ruled the country for nearly five decades until the April 1994 elections, admitted yesterday it was involved in a fundamental reassessment of its role in the country's political life.

The party, led by Mr F.W. de Klerk, also deputy president in the Government of National Unity, said restructuring South African politics was essential and would require "fearless leadership".

The statement, by the National party's MPs followed disclosures in the Afrikaans-language newspaper Rapport that an internal document proposed disbanding the party and replacing it with a Christian Democratic alliance which would seek to draw in other organisations opposed to the ruling African National Congress.

Mr de Klerk and other National party officials denied yesterday the document represented party policy, but Mr Danie du Plessis, party spokesman, said it was obvious something had to be done to counter ANC dominance. "On its own, the National party cannot do anything against the ANC," he said.

Mr De Klerk has argued forcefully for retention of the National party's junior role in government, but relations between him and President Nelson Mandela have cooled. Frustration has grown among grassroots members over the party's inability to influence ANC decisions in cabinet.

National party officials accept that if it is to gather more support in the 1999 general elections, it will have to broaden its appeal to non-white members of the electorate. It was able to capture the provincial government of the Western Cape in 1994, largely due to support from the coloured community, but there were signs an important slice of that vote shifted to the ANC in the November 1 local elections last year.

There are no indications the National party has yet made any approaches to the mainly-Zulu Inkatha Freedom party or the Democratic party. But Mr Du Plessis said the party was studying all ways of bringing together people who shared similar values.

INTERNATIONAL NEWS DIGEST

French deal on Moroccan debt

France has agreed to cancel FFr400m (£52.4m) of Moroccan debt if the Rabat government invests the equivalent in the Rif region south of Tangiers to help provide alternative jobs to cannabis growing there.

The debt relief accord, signed by Mr Jean Arthuis, the French finance minister, during the weekend in Morocco, also involves softening repayment terms on a further FFr600m of Moroccan debt to France. Morocco owes France a total of FFr25bn.

The moves are in return for Morocco allowing French companies to participate in the privatisation of Moroccan state enterprises and guaranteeing French companies freedom to transfer money in and out of the north African state. Mr Arthuis also committed France to providing FFr345m to finance water and rail projects.

The accords reflect the improvement in Franco-Morrocan relations since President Chirac's election last May. Since the election French aid credits to Morocco rose last year to FFr2bn, or more than double the average over the preceding decade.

David Buchan, Paris

KIA chief withdraws resignation

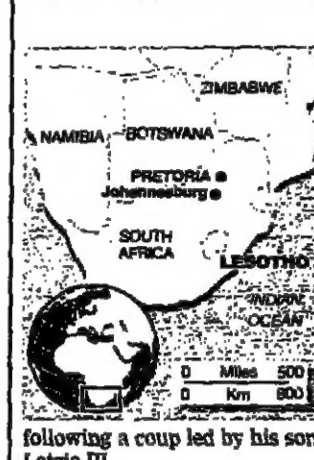
The head of the Kuwait Investment Authority (KIA), which manages the government's investments overseas, has withdrawn his resignation submitted last month, KIA said yesterday.

"At the request of Finance Minister Nasser al-Rudhan, KIA director Ali Rashid al-Badr withdrew his resignation and agreed to stay in his job until the end of his term in March 1997," KIA's Mr Khaled al-Tarrah said. Mr Badr had submitted his resignation on December 10, for "personal reasons, because of his wish to spend more time with his family".

The KIA manages government funds abroad, including "The Fund for Future Generations", for which 10 per cent of oil revenues are earmarked but whose amount is kept secret. A Kuwaiti economist said in December that Mr Badr had resigned after the finance ministry asked him to use the Fund for Future Generations to cut the budget deficit which stood at $4.6bn in the last fiscal year.

AFP, Kuwait

Car crash kills King of Lesotho



King Moshoeshoe II of Lesotho was killed in a car accident early Monday, less than two years after regaining the throne of his politically turbulent southern African nation. He was 57. King Moshoeshoe had been on and off the throne three times in the waves of political unrest that have swept Lesotho since independence from Britain in 1966. He was stripped of all political powers after his last ousting, by military leaders in 1989, and only returned to the symbolic monarchy last year following a coup led by his son and successor, the former King Letsie III.

In a state radio announcement more than seven hours after the accident, Prime Minister Ntsu Mokhele declared a national state of mourning until the King's burial, expected this weekend. He ordered flags flown at half-mast.

The King's death was not expected to cause any significant instability in Lesotho, which returned to democratic rule in 1993 with Mr Mokhele's election, said Mr Gerhard Visser, the South African ambassador.

Moshoeshoe's wife, Queen Mamohato Seeiso, was to take over as regent until the Traditional College of Chiefs, a tribal body, named one of several high-ranking chiefs as his successor, Mr Visser said.

AP, Maseru

Fresh bid to agree curbs on landmines

By Frances Williams in Geneva

Negotiators from 50 nations will this week try again to agree restrictions on anti-personnel landmines aimed at reducing the huge numbers of civilian casualties from mines after conflicts have ended.

Officials said the United Nations-sponsored talks would focus on moves to ban "dumb" or non-detectable mines and oblige all mines used outside fenced areas to be fitted with self-destruct and de-activation devices.

The negotiations are intended to pave the way for a final meeting in April which will revise a 1980 UN convention on use of "inhumane" weapons, following the breakdown of talks last October in Vienna.

The UN estimates that more than 100m mines have been planted in 64 countries, causing about 20,000 deaths and serious injuries to civilians each year.

Many humanitarian organisations are campaigning for an outright ban on all anti-personnel landmines.

However, Mr Johan Molander of Sweden, chairman of the UN negotiations, said yesterday that a prohibition was "not acceptable to the majority of countries".

There was basic agreement on outlawing certain types of mines including "dumb" mines, but differences over issues such as the length of any transition period, and whether exceptions would be allowed.

Labour unions go global

Robert Taylor examines the belated response of workers to the world market

"Think global, act local" was once the slogan of corporations and environmentalists but it is fast becoming a rallying cry of international labour. In the past, trade unions found it hard to work in unity across national frontiers: now they have started to mobilise in campaigns applying pressure on some of the world's large companies.

There is a growing number of examples of trade unions taking the offensive. Last week the Geneva-based International Federation of Commercial, Technical and Clerical Employees launched a campaign aimed at unionising employees in Toys R Us, the US-based retailer, in 20 countries.

The Teamsters, the US's largest trade union, have taken their protest over what they see as an unfair distribution policy by Ahold, the supermarket multi-national, to the company's home country of the Netherlands, placing advertisements in local newspapers which claim it is hurting the "poor and elderly" in the US by building hypermarkets outside inner cities.

The Postal, Telegraph and Telephone International, which represents unions in the sector around the world, is involved in international action against Sprint, the US company, after it dismissed Hispanic workers trying to organise a union at its La Conexion Familiar subsidiary in San Francisco.

Deutsche Postgewerkschaft, the German telecommunications union, has indirectly pressurised Sprint to negotiate with its fired US workers by demanding that Deutsche Telekom should introduce a code of basic labour standards as part of its deal to launch a £2.7bn joint venture with Sprint.

French telecoms workers are holding up a similar deal between France Télécom and Sprint while STRM, the Mexican telecoms company has drawn up charges against the US company which it alleges is in breach of the labour agreements of the North Atlantic Free Trade Agreement.

There is also widespread trade union mobilisation through the International

'An appeal for justice.' A Teamster advertisment in the Amsterdam newspaper De Volkskrant

Metalworkers' Federation against the anti-union behaviour of Bridgestone, the Japanese tyre-maker at its US Firestone subsidiary where striking employees were replaced with a substitute workforce.

This involved a recent protest visit to Japan by leaders of the US Steelworkers' union who picketed the company's headquarters.

Officials from the same union visited the UK recently to lobby against British Steel's decision to close its unionised operations in Cleveland and open non-union steel-making facilities in Alabama.

Solidarity action is not just being organised by established union organisations. In the current unofficial strike on Merseyside in the UK, dockers are in direct contact with the Longshoreman's union on the US west coast. Support is also coming from union activists in Australia, Israel and Spain.

Nor is all international union action confrontation. Last year, two French companies – Accor, the world's largest hotel chain and Danone, the food group – signed agreements with IUF, the Hotels and Catering International union that uphold basic labour rights for their employees.

Such diversity of union activity suggests a belated awareness of the impact the new global economy is having on international labour and this looks set to grow in 1996.

In June, at its world congress in Brussels, the International Confederation of Free Trade Unions will adopt a strategy to challenge the power of the trans-national companies especially around the Pacific rim.

The organisation, claiming to represent 127m workers in 190 trade union centres across the world, plans an integrated information network in alliance with the 15 trade secretariats that cover trade unions in different industrial sectors. "We are building a practical partnership for the first time to response to globalisation," says Mr Bill Jordan, the ICFTU's general secretary.

Such labour assertiveness against global corporations must not be exaggerated but it appears to reflect a new militancy.

"In the past, international labour was about meetings of top union leaders exchanging platitudes. Now it involves shop stewards and union officials in a practical way as a normal and not an exceptional part of their work," says Mr Denis MacShane, UK Labour MP for Rotherham and the author of a forthcoming book on global labour.

He believes the unions have taken "15 years to catch up "with the "globalisation of capital".

But with the spread of the Internet and use of information technology workers and unions are forging corporate strategies that go beyond resolutions.

The new mood has been helped by the recent change of leadership at the head of the AFL-CIO union federation. Under its new president Mr John Sweeney the US labour movement looks set to take the offensive against what it sees as the excesses of corporate America in the global economy.

But international labour still lacks the clout consumer pressure groups can wield against corporate power such as that used last year by Greenpeace against the Shell's threat to dump its Brent Spar oil platform in the north Atlantic.

Bank warns over boom in commodities

By Guy de Jonquières

Developing countries still have an opportunity to use the recent strength of world commodity prices to improve their fiscal positions, and limit the damage to their economies regularly caused by booms, according to a World Bank report*.

The report says the opportunity may prove short-lived and will only be seized effectively if producer countries learn from past policy mistakes.

The report says the recent boom, which began in 1992, resulted mainly from supply shocks, such as poor weather and voluntary production cuts,not from higher demand. It expects prices to fall once normal production returns.

It says the World Bank index of primary commodities is projected to fall this year, after rising 8.6 per cent in nominal terms last year. In real terms, the index would be 8 per cent below last March's peak by the year 2000, and would then stagnate for five years.

The report says past commodity booms have left many developing countries worse off because windfall revenues were mismanaged by governments. Booms also damaged competitiveness by forcing up exchange rates and handicapping diversification.

Governments must resist the temptation to use short-term revenues from this boom to fund long-term investment commitments, and should also pursue counter-cyclical fiscal and monetary policies aimed to check excessive and unsustainable economic expansion.

Governments should seek to relax capital controls, invest abroad some of the increase in foreign exchange assets and liberalise trade restrictions, to curb real exchange rate appreciation and encourage diversification of their economies.

The report warns strongly against punitive export taxes.

Past commodity booms have left many developing countries worse off because windfall revenues were mismanaged by governments

It says these encouraged tax evasion and smuggling, while governments had often spent the proceeds unwisely.

However, it favours judicious investment in research, infrastructure and structural adjustment programmes.

The report is cautious about the value of stabilisation funds and market hedging instruments, emphasising that these should be used only by countries with sound administration and good credit ratings.

It says commodity booms might be managed more effectively if some of the windfall gains were left with farmers, rather than appropriated by their governments. However, such an approach must be accompanied by sound macroeconomic policy, financial liberalisation and market reforms.

**Managing Commodity Booms – and Busts. The World Bank, 1818 H Street N.W., Washington DC 20433. Tel: 202-477 1234. Fax: 477 6391.*

Export revenues from commodities ($bn)

Region	1992	1993	1994
East Asia and the Pacific	9.0	9.1	13.4
Europe and Central Asia	3.1	4.3	6.4
Latin America and the Caribbean	13.2	12.2	17.8
Middle East and North Africa	0.4	0.5	0.6
South Asia	1.0	0.8	0.7
Sub-Saharan Africa	5.7	5.4	7.2

Source: Estimates by the Commodity Policy and Analysis Unit, International Economics Department, World Bank

Third world looks to first world cast-offs

Developing countries are eagerly snapping up used factory machinery and plant, writes Andrew Taylor

There are more than 5,000 miles between the tired urban landscape of Romford in east London and a greenfield development site at Baoding, south of Beijing.

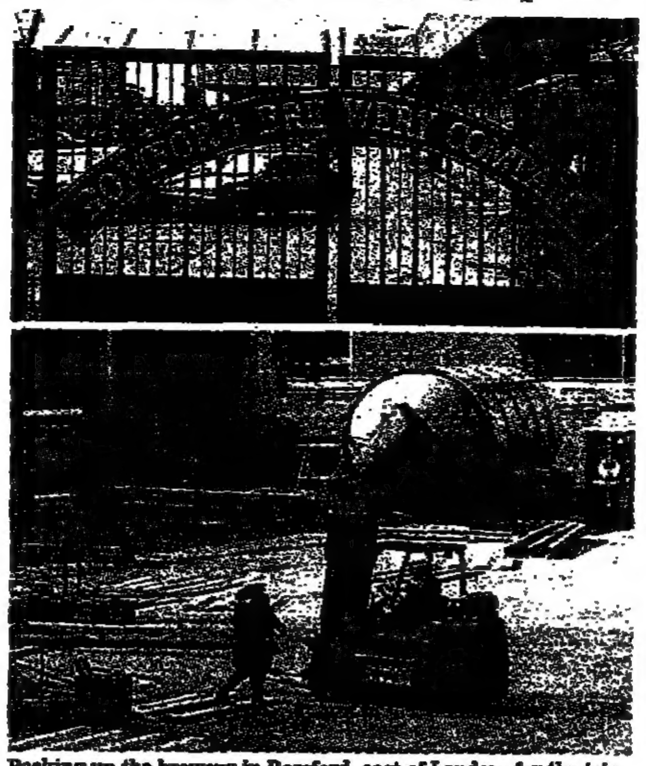
This journey has just been completed by the former Romford Brewery, once renowned for its John Bull beer, which has been dismantled and shipped to China in 130 containers.

It is being reassembled by new owners San Miguel, the Philippines based brewer in partnership with Bada, a local company from Hebei Province.

The volume of secondhand factory equipment and plant being exported from industrialised countries to emerging nations is rising rapidly, says Ove Arup, UK consulting engineers assisting the move from Romford to Baoding.

Developing countries and industries cannot afford to pay new prices for all the new equipment they need, says Arup. Secondhand equipment is cheaper and has the added advantage of a proven track record.

Mature industries in developed nations need to invest in more efficient modern plant to meet rising environmental standards and to combat increased competition from low wage economies. They now have a ready a market for their old equipment, even if they are assisting potential competitors.



Packing up the brewery in Romford, east of London, for the trip to a greenfield site south of Beijing

Just before the end of last year, Kuwait Raffinazione e Chimica, the Italian subsidiary of Kuwait Petroleum, announced that it had sold an oil refinery in Naples to Petro Energy Products Company India (Pepco).

The cost of dismantling 10,500 tonnes of refinery equipment and moving it to Pondicherry in Tamil Nadu is estimated to be between $400m and $500m.

This represents a savings of up to 70 per cent compared with the cost of $1.2bn-$1.5bn to build a new refinery according to Henry Butcher, international plant and property consultants which handled the sale.

The refinery which attracted strong interest from eastern European and south east Asian countries, is planned to be operational within two to four years.

Mr Peter Harriman, Henry Butcher partner, says: "Over the past 10 years the pace of industrialisation in many developing countries has quickened. In particular China, the Indian sub-continent and other countries in southeast Asia and South America have acquired a great deal of equipment from Europe and North America."

The company has been instructed by BHP Minerals of Canada to find a buyer for the assets of one of the world's largest copper mines on Vancouver Island which is closing. It is also nearing the end of a four-year programme to sell plants and equipment used in the construction of the Channel tunnel. Buyers have come from all over the world, according to Mr Harriman.

The cost of shipping the former Romford brewery to China is estimated to be around £50m, a fifth cheaper than designing and building a completely new plant.

Mr John Dunwell, vice president of San Miguel, says that Carlsberg Tetley closed the Romford works because of overcapacity in the UK brewing industry.

Industries in developing countries cannot afford to buy new equipment for everything they need

China by comparison is one of the world's fastest-growing beer markets and is the third largest producer behind the US and Germany.

Ove Arup also has advised on the construction of a new combined heat and power station for the Baoding brewery which will produce San Miguel pale pilsen, one of the best selling foreign brands in China.

The last of the brewery equipment arrived at the beginning of December, accompanied by 300 police and officials and celebrated with firecrackers, having travelled overland in a 5km long convoy from the Chinese port of Tianjin. The plant is expected to produce the first beer by the end of March.

Arup says that chemical production and vehicle manufacturing are the most popular industries for relocating plant, but demand is spreading to other industries.

Kimberley Trading, a small London based export company specialising in selling new and secondhand machinery and spares to Kenya, is currently looking at the possible purchase of equipment from a British disposable nappy factory which it would send, lock stock and barrel, to Nairobi.

It says: "Deals like this are increasing. It provides export earnings and further useful life to equipment which would otherwise be sold for scrap or remain idle."

Last year the company arranged the sale of 50 weaving looms from an old French abbey. The looms which were up to 30 years old are now working in a Nairobi factory.

WORLD TRADE NEWS DIGEST

Korea airline to buy 150 aircraft

Korean Air Lines is to spend Won11,000bn ($13.9bn) on 150 new aircraft by 2005, and plans to sell 54 aircraft during the same period, it said yesterday.

The airline said it planned to buy 16 aircraft by the end of next year from Boeing and McDonnell Douglas, both of the US. It will buy eight of the aircraft this year, including four Boeing 747-400s and three McDonnell Douglas MD-83s. Next year's purchases will include four further Boeing 747-400s and two Boeing 777s.

This year, it would sell three McDonnell Douglas DC-10s and three Boeing 727s, the airline said. The Korean announcement confirms Asia's status as the world's most lucrative region for aircraft manufacturers. Singapore airlines placed an order for 77 Boeing 777s last year. Last week, Malaysia Airlines said it was ordering 15 Boeing 777s and 10 Boeing 747-400s. *Michael Skapinker, Aerospace Correspondent*

Thailand, Laos settle row

Thailand and Laos yesterday settled an electricity pricing row and signed a memorandum of understanding under which the state-owned electricity generating authority of Thailand (Egat) will buy 126MW of electricity for 30 years from a hydro-electric power station being built by South Korea's Daewoo, Thailand's Loxley and the state-owned Eléctricité du Laos. Under the terms of the agreement, Egat will pay 4.22 cents per kilowatt hour bought from the $200m Houay Ho Dam, which is scheduled to be completed in 1998.

The Lao government had earlier asked for the electricity purchase price to be raised to $4.35 cents per kilowatt hour, a move that outraged Egat officials and surprised private developers. The agreement paves the way for Thailand to buy more power from Laos. Egat has plans to purchase up to 2,000MW by the year 2003 from its northern neighbour. *Ted Bardacke, Bangkok*

■ Rolls-Royce of the UK has won an order worth up to £50m ($77m) to provide engines for two sets of aircraft ordered last year. Austrian Airlines and Tyrolean Airways have ordered Rolls-Royce Tay 620-powered Fokker 70 aircraft, while All Nippon Airways (ANA) has chosen Airbus A321 airliners powered by the International Aero Engines V2500 in which Rolls-Royce is a big shareholder. ANA's order is for 10 A321s with an option for a further eight. *Reuter, London*

■ Tuntex, a Taiwanese group with interests in construction, petrochemicals and finance, plans to invest $1bn to build three plants in Thailand. The company said yesterday the Thai government had approved the projects, which comprise a $750m pure terephthalic acid (PTA) plant, a $200m polyester fibre plant and a $72m fabric plant. Tuntex is a highly competitive producer of polyester fibre due to large-scale production and use of recycling technology.The company also plans to build a naphtha cracking and petrochemical complex in southern Taiwan. *Laura Tyson, Taipei*

■ Eléctricité de France in association with Delma of the US has won a bid to build a power station in Gaza, the Palestinian energy commission said. The $160m power station is due to come on stream eight months after construction work starts, and will build up to full capacity of 175MW by 1997. *AFX News, Gaza Strip*

■ Dominion Textile, the Canadian integrated fabrics producer will build a C$116m ($85.2m) denim cloth plant in Madya Pradesh State in a joint venture with LNJ Bhilwara of India. Start-up is set for late 1997. *Robert Gibbens, Montreal*

NEWS: ASIA-PACIFIC

Boat people to go home 'in 6 months'

By William Barnes in Bangkok

The 18,000 Vietnamese boat people still in south-east Asian camps will all be sent home within six months and Hong Kong's 20,000 Vietnamese migrants will be repatriated much more quickly, a closed-door United Nations-sponsored meeting in Bangkok decided yesterday.

Delegates said the boat people saga would be finally brought to an end – by force if necessary. "The world will not see pictures of screaming refugees, because they are not refugees... but as human beings we hope the matter can be conducted in as honourable way as possible," said the chairman of the meeting, Mr Alexander Casella, United Nations High Commissioner for Refugees' Asia director.

Vietnam has agreed to accept the return of all 40,000 of its citizens. Countries in the Association of South-east Asian Nations hosting the "economic migrants" made it clear to Vietnam, which last year joined the association, that their patience was exhausted.

The cash-strapped UNHCR, which has more urgent calls on its resources in Bosnia, Afghanistan and elsewhere, said it would support the boat people in Asean countries only for another six months. It will support the Hong Kong camps a little longer.

One senior western diplomat said, "These refugees are the bottom of the refugee barrel – only people playing political games could say they shouldn't go home."

Mr Peter Lai, Hong Kong's secretary for security, said its boat people could soon be cleared out at the rate of 1,800 a month, which is the maximum number of arrivals Vietnam has said it can cope with. In 1995 only 1,700 returned voluntarily; about 200 are being deported every six weeks.

"The camp population will be told very clearly: your only future is in Vietnam – that there's no hope of a home anywhere else," said Mr Lai. In the Hong Kong camps last week, 500 Vietnamese volunteered to return.

The meeting rejected American schemes to link repatriation to the re-screening of boat people for possible admission to the US. The Asean countries said "there should be no actions or other new initiatives which will interrupt or adversely affect (repatriation)... as in the past".

Mr Winston Lord, US assistant secretary for state, admitted on Saturday that an American legislator's plan to sift through the boat people yet again for potential political victims or "friends of America" had stopped repatriation "in its tracks" in 1995.

The US Government's current scheme to interview returnees in Vietnam should still proceed, but this "Track Two" plan now appears little different from the Orderly Departure Programme under which 600,000 Vietnamese have emigrated in the last 15 years, mostly to the US.

Japanese salarymen's jobs for life begin to unravel

As hard-hit corporations cut costs, some of the worst hit have been long-serving managers, reports Michiyo Nakamoto

The mood in the narrow, cramped office of the Managers' Union in western Tokyo where a small group of middle-aged men were assembled was surprisingly cheerful, given the nature of the gathering.

Although neatly dressed in suits and ties, the men attending the union's regular assembly were mostly either unemployed or had been marked out for redundancy. As Japan returned to work after the New Year break, they had no jobs to go to.

Mr Natsuki Maruyama, 49, who was forced to resign from the precision instruments manufacturer he worked for until September, was there to keep his mind off the past. "I try to keep myself busy because otherwise I might start fretting over what happened," he says.

Many of the members of the Managers' Union, a support group, are victims of a spreading move among Japanese companies to force out older employees who are too senior to be protected by the company union.

Japan's unemployment rate has been perched for months at the highest level since the war. The seasonally-adjusted unemployment rate in November was a record 3.4 per cent, the Management and Co-ordination Agency said.

As hard-pressed Japanese corporations have sought increasingly drastic measures to bring down their costs, one of the most seriously affected groups has been long-serving salarymen in managerial positions.

"The main target of restructuring measures at large corporations have been those over 45 who earn an annual income of Y10m ($95,000) or more," notes Mr Kiyotsugu Shitara, secretary-general of the Managers' Union.

Among 2.14m Japanese unemployed when statistics were last compiled in October, more than 44 per cent were over 40, according to the Labour Ministry. Amid the prolonged economic slump the target of restructuring has expanded recently to include those over 35 who earn Y9m or more, Mr Shitara points out.

The bleak situation facing older Japanese salarymen today belies the widely held image of Japanese corporations as faithful to the practice of lifetime employment.

While few Japanese companies will risk the disgrace of forced redundancies, many have little trouble finding other means to trim unwanted employees from their payrolls at little cost to the corporate coffers. The most common practice is to apply enough pressure on those marked for the axe so that they will leave of their own accord.

In Mr Maruyama's case, the first thing his employer did was to cut his salary by Y200,000 a year and take away his housing allowance. It then refused to give him any work to do, so he spent his time in the library, studying English. Eventually, however, he had little choice but to leave.

"The large companies are more indirect than smaller companies in their approach," Mr Shitara notes. "When there is someone they want to get rid of, they tell him there is no work for him any more. If the person succumbs to such pressure and resigns, he has no choice but to accept the conditions offered by the company."

Mr Maruyama, who left his company with a significant severance payment, was one of the more fortunate. In many cases, salarymen forced to resign are not even aware of their rights and leave without an appropriate pay-off, points out Mr Kenji Tokuzumi, a Tokyo lawyer who has handled a large number of labour disputes.

Men in their late 40s and over, the generation that devoted their lives to working selflessly for their company, are particularly vulnerable because they have spent their lives doing just as their company has told them to, Mr Tokuzumi says. "They have never said no to their company, so they cannot say no even when they are asked to resign," he explains.

A typical tactic used against such men is to appeal to their sense of duty and plead with them to resign, to save the company from financial ruin.

Not surprisingly, the psychological damage inflicted on men who, late in a life devoted to the company, suddenly find themselves unloved by their company, is considerable.

Japanese salarymen have always believed that as long as they work hard for their company they will be rewarded accordingly, Mr Tokuzumi says. That is why the shock of losing their job is particularly great for the older generation, since under Japan's seniority system the bulk of a salaryman's remuneration comes later in his working life.

"In a typical case, the man's wife, worried by her husband who does not get out of his futon all day, calls up seeking advice," Mr Tokuzumi says. "For these men who derived their own self-esteem from their work, being told they are no longer needed is tantamount to being told they are worthless. They find this very hard to deal with."

Most people expect the difficult situation facing older salarymen to continue as unemployment remains high in Japan. Over half of companies surveyed by Asahi Bank thought they had more employees than they needed. Just under 70 per cent felt they had an excess of employees in their 50s, while 60 per cent thought they had too many managers.

Meanwhile, nearly 37 per cent of companies think the system of lifetime employment has already started to unravel while 56 per cent believe the system will eventually have to be-reviewed, Asahi Bank's survey found. Mr Tokuzumi says managers have to stand up for themselves. "Japanese salarymen have to learn to become more independent of their companies." They have to recognise they have a right to say no.

ASIA-PACIFIC NEWS DIGEST

Mahathir urges Canberra peace

Dr Mahathir Mohamad, Malaysian prime minister, yesterday urged mutual restraint after several years of stormy ties with Canberra, while his visiting counterpart, Mr Paul Keating, declared Australia's future lay in Asia. "We need to avoid or at least limit the type of hiccups which off and on bedevil our relations," Dr Mahathir said at a dinner honouring Mr Keating, who arrived for a three-day visit.

The trip, the first by an Australian premier since 1984, followed four years of difficult bilateral relations, which reached their nadir when Mr Keating called Dr Mahathir a "recalcitrant" in November 1993. He used itto describe Dr Mahathir's opting out of the US-initiated Asia Pacific Economic Co-operation (Apec) summit in Seattle.

The Australian premier listed technology and education as vital areas for co-operation between the private sectors of the two countries. *AFP, Kuala Lumpur*

S Korea balks at oil payments

South Korea yesterday told the US head of a consortium providing nuclear reactors to North Korea it would not help fund interim oil supplies to the North during construction. "The South Korean government, which has pledged to pay most of the $4.5bn cost of building the reactors, feels it should not help pay for the oil," said a spokesman for Mr Choi Doing-Jin, Seoul's nuclear ambassador.

Mr Choi had conveyed his position in talks with Mr Stephen Bosworth, secretary-general of the Korea Energy Development Organisation, charged with building the reactors. However, if other countries and groups, including the European Union, want to contribute to the cost of the 500,000 tonnes of fuel oil the US agreed to provide annually under the 1994 Geneva agreement, South Korea had no objections, he said. *AFP, Seoul*

Foreigners invest $40bn in China

Foreign investment in China was worth $40bn last year, up about 30 per cent from 1994, according to State Planning Commission estimates reported in the China Daily. The commission did not provide figures on pledged foreign investment, which fell 30 per cent in the first half of 1995 to $31bn, following government restrictions on property investments by foreigners, the official newspaper said.

This year, the number of contracts signed with foreign companies will also be lower, mainly because of the end of advantages previously accorded to joint ventures, such as tax exemption on imports of capital goods, it added.

Final figures on 1995 foreign investment will not be available until the end of January, a commission official was quoted as saying. He said total foreign capital used in 1995, including loans and grants from governments and international organisations, was $50bn. The volume of capital used in 1996 could shrink, he said, because of the government's goal to reduce the economic growth rate to 8-9 per cent from 10.2 per cent in 1995 and 11.8 per cent in 1994. *AFP, Beijing*

Kockums bribe claim unproven

A Swedish official inquiry said yesterday it had been unable to substantiate allegations that Kockums, a subsidiary of the defence group Celsius, had offered bribes to members of the Thai government in a bid to win a SKr2bn ($300m) contract for two submarines. The findings by the General Inspectorate of Military Equipment – a government body that scrutinises weapons exports – were welcomed by Kockums, which promised to step up its efforts to win the order.

The bribe allegations, made by a Swedish peace group, have caused uproar in Thailand although they have been vigorously rebutted by Kockums and the Thai government. The Thai opposition Democrat party has also claimed it was offered bribes by the Swedish group. Kockums said yesterday that the affair had "damaged (the company) greatly, both in terms in goodwill and also perhaps economically". The group faces stiff competition for the contract from rival European companies. *Christopher Brown-Humes, Stockholm*

■ Shenzhen futures market officials have ordered futures trading companies to stop foreign exchange futures trading, banned by Beijing in 1994, the Shanghai Securities News said. *Reuter, Shanghai*

■ Bombay's Victoria Terminus, the main railway terminal in India's commercial capital, will be named "Chatrapati Shivaji Maharaj railway station" after an 16th century warrior king, said Mr Suresh Kalmadi, railways minister. *Reuter, Bombay*

Claimants meet over $475m Marcos fortune

By Simon Holberton in Hong Kong

Competing claimants to $475m salted away in Swiss bank accounts by the late Mr Ferdinand Marcos, the former president of the Philippines, gathered in Hong Kong yesterday for a week-long meeting aimed at resolving ownership of the funds.

Filipino protesters *(pictured right)* demonstrated outside the hotel where the meeting was being held, against any settlement concerning the fortune which included an amnesty for the late Philippine president's widow, Mrs Imelda Marcos.

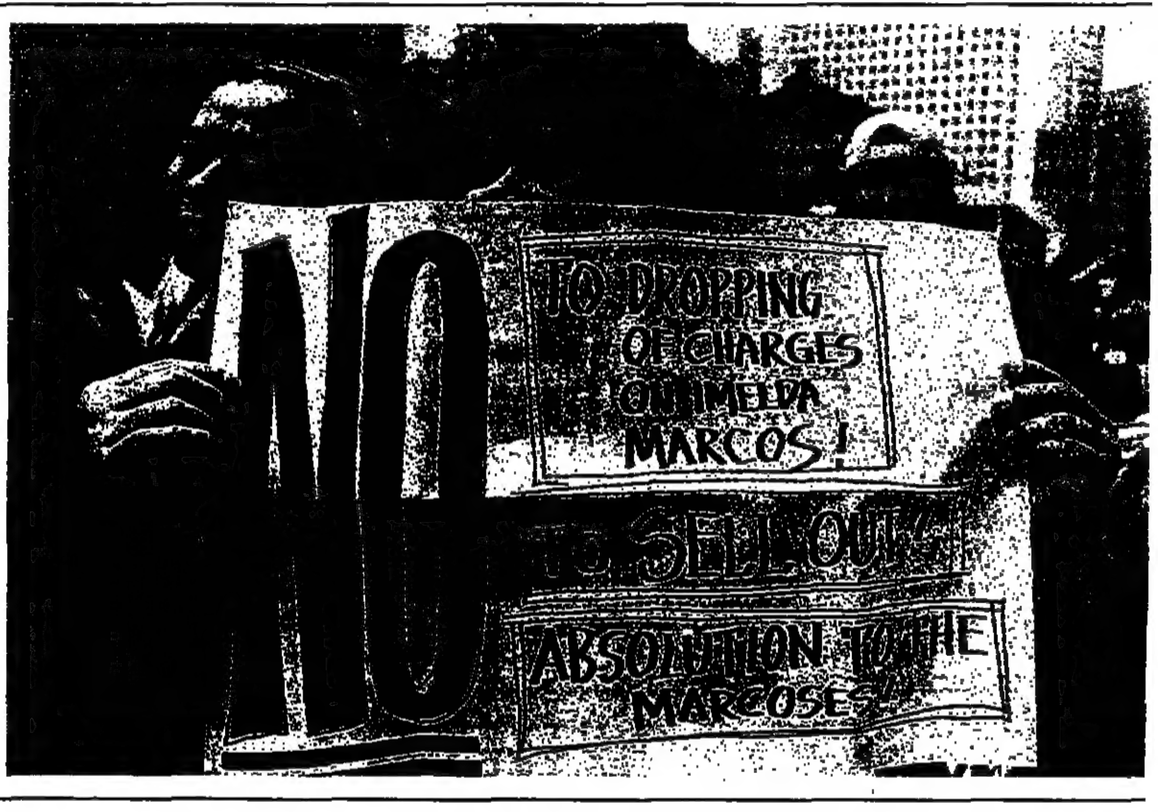
The money is held by Swiss Bank Corporation and Crédit Suisse. Mediating in the dispute, which involves representatives of the Philippine government, the Marcos family and human rights groups, is Mr Chester Crocker, a former US diplomat.

He said yesterday the first day's discussion was "generally positive" and "constructive exchanges" had taken place. "Things are off to a not bad start," he stated, refusing to give any details. At the insistence of the parties to the dispute a news blackout would be enforced, he added.

Ten years ago, Mr Marcos was toppled from power by the "people power" revolution of Mrs Corazon Aquino.

The existence of large amounts of money in Swiss bank accounts was taken as symbolic of his abuse of power and poor governance of his country.

Mr Marcos later died in exile in Hawaii. His wife, Imelda, subsequently returned to the Philippines and last year won a congressional seat. She claims the money in Switzerland belongs to her and the Marcos family.



Picture by Reuter

Emerging mass groups point up discontent with Suharto regime

They dodge a clampdown by defining themselves as 'social organisations', writes Manuela Saragosa

When an allegedly demented ethnic Chinese publicly ripped out pages from the Koran in central Java late last year, the incident tweaked a raw nerve in the delicate fabric of Indonesia's national unity, sparking off some of the worst rioting in the country recently.

The event was another reminder that despite this sprawling archipelago's apparent stability and the tolerance of its largely Moslem population, racial and religious divides are always close to the surface.

President Suharto's New Order government, in power since 1965, has made a point of trying to separate politics from religion or ethnicity. But the past few months has seen the emergence of a number of so-called "mass organisations", many of which are divided along religious lines.

The organisations made headlines for a while before some of them appeared to sink into oblivion. But the amount of discussion they generated and the people who organised them gave some indication of the level of dissatisfaction with President Suharto's regime.

"In this period of accelerated socio-economic change, there is bound to be some degree of reaffirmation of one's identity," explains Prof Juwono Sudarsono of the University of Indonesia and vice-president of Lemhanas, the defence ministry's think tank.

While these "mass organisations" may have political aspirations, they dodge a clampdown by authorities by defining themselves as "social organisations", since the formation of political parties beyond the three already in existence is illegal under President Suharto's government.

But there is nothing new about this tactic. The Nahdlatul Ulama, a "social organisation" counting 30m members, mainly among the peasantry, is Indonesia's largest Moslem organisation, preaching a moderate, tolerant form of Islam.

The NU separated from the licensed opposition party, the United Development party, or PPP, in 1984, claiming it wanted to withdraw from politics. Under an ostensibly non-political banner, the NU has been far more effective as a pressure group and with its tacit support of the increasingly popular Indonesian Democratic party, it is also a force with which the government must reckon.

Members of the new "mass organisations" are prominent Indonesians ranging from former government officials to economists. The titles they have assumed for their groupings all hark back to the pre-Suharto era.

There is the "new" Masyumi, which takes its acronym from a Moslem party, Majelis Syuro Muslimin Indonesia, which was banned in 1960 for its involvement in an armed rebellion, and the "new" Parkindo, an acronym for a defunct Christian political party.

The past few months has also seen the setting-up of the "new" PNI which takes its initials from the socialist Indonesia Nationalist party, forced to merge with other parties to form the Indonesian Democratic party in 1973.

None of these new "mass organisations" has a defined agenda, but have made clear they do not preach fundamentalism and will adhere to the state ideology, Pancasila, which preaches religious tolerance. As a result, some observers play down their importance as pressure groups.

"There is a certain nostalgia; most leaders of these groups are people over 65: they represent more a movement than an organisation, reflecting a sense of reaching for a community rather than an attempt to influence government policy," says Prof Sudarsono.

This may go some way to explain why the government has been relatively tolerant of their establishment, despite initial consternation and the usual clampdown on political opposition which occurs ahead of the general elections, scheduled to take place next year. Still, some of the new "mass organisations" have been blatantly anti-establishment.

Mr Ridwan Saidi, the "new" Masyumi's founder and leader, claims the group was set up because Moslems are not represented in Indonesia's present political system.

The existing government forum for Islam is Icmi, the Indonesians Association of Moslem Intellectuals, which recently re-elected Mr Jusuf Habibie, research and technology minister, as its chairman. The government set up Icmi, reported to have 25,000 members, five years ago in an attempt to co-opt the middle-class Moslem vote. Through Mr Habibie, Icmi gives these Moslems access to the president.

But critics say Icmi's credibility has been dented by its disparate membership and its close links to the establishment: members of the ruling Golkar party have a strong presence on its executive board. In any case, there are numerous strains of Islam in Indonesia which ensure that it is virtually impossible to co-opt it as a cohesive vote.

By setting up these organisations, some prominent members of Indonesian society have indicated they are not satisfied with the political outlets available under President Suharto's government.

"Political awareness among the people is increasing," says Mr Rudini, a retired general and the former army chief of staff and minister of home affairs. "Middle-class and intellectual groups feel [existing] political structures cannot tackle people's aspirations."

Separatist rebels in Indonesia's remote Irian Jaya province temporarily released one of seven European hostages yesterday to convey their demands, Reuter reports from Jakarta. Those close to the rescue operation, now in its second week, said Mr Frank Momberg, a German, was still in Wamena town more than five hours after arriving. It was not clear whether he would be going back into the dense jungle. The official Antara news agency quoted Brig Gen Suwarno Adiwijoyo, military spokesman, as saying Mr Momberg would have to return to the rebel camp.

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

■ UNITED STATES

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	13.5	8.3	6.49	7.67	3.43
1987	11.6	6.6	6.82	8.39	3.12
1988	4.2	5.2	7.65	8.84	3.61
1989	1.0	4.0	8.99	8.50	3.43
1990	3.6	5.3	8.06	8.55	3.60
1991	8.0	5.2	5.87	7.86	3.21
1992	12.4	2.1	3.75	7.00	2.95
1993	11.6	1.3	3.22	5.86	2.78
1994	6.2	1.9	4.67	7.08	2.86
1995	−0.4	2.6	5.93	6.57	2.61
1st qtr.1995	1.0	1.0	6.18	7.47	2.86
2nd qtr.1995	0.1	1.7	6.03	6.60	2.68
3rd qtr.1995	−0.7	3.4	5.79	6.32	2.53
4th qtr.1995	−1.9	4.2	5.73	5.89	2.38
January 1995	1.5	1.1	6.23	7.77	2.92
February	0.9	1.1	6.16	7.46	2.85
March	0.6	1.0	6.15	7.20	2.81
April	0.6	1.1	6.12	7.05	2.74
May	−0.0	1.5	6.05	6.63	2.68
June	−0.3	2.6	5.94	6.16	2.61
July	−0.6	2.8	5.80	6.26	2.55
August	−0.6	3.5	5.82	6.50	2.55
September	−1.0	3.9	5.74	6.19	2.48
October	−1.6	4.0	5.81	6.03	2.46
November	−1.8	4.1	5.74	5.93	2.42
December 1995	−2.2	4.4	5.63	5.71	2.24

■ JAPAN

	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	6.9	8.2	5.12	5.35	0.84
1987	10.5	11.5	4.15	4.64	0.55
1988	8.4	10.4	4.43	4.77	0.54
1989	4.1	10.6	5.31	5.16	0.48
1990	2.5	8.5	7.62	6.90	0.65
1991	5.2	2.0	7.21	6.40	0.75
1992	4.5	−0.4	4.28	5.24	1.00
1993	3.0	1.4	2.83	4.18	0.87
1994	5.4	2.9	2.12	4.20	0.78
1995			1.12	3.39	0.86
1st qtr.1995	5.0	3.6	2.15	4.38	0.86
2nd qtr.1995	6.1	3.3	1.23	3.27	0.93
3rd qtr.1995	8.6	2.8	0.86	3.05	0.86
4th qtr.1995			0.43	2.88	0.81
January 1995	5.5	3.2	2.23	4.60	0.80
February	4.9	3.7	2.20	4.52	0.85
March	4.5	3.6	2.04	4.06	0.92
April	5.6	3.2	1.37	3.52	0.92
May	6.9	3.3	1.24	3.35	0.91
June	7.0	3.3	1.09	2.96	0.96
July	7.2	2.9	0.80	2.91	0.91
August	8.6	2.9	0.71	3.25	0.85
September	9.9	2.8	0.46	2.97	0.82
October	12.1	2.7	0.41	2.89	0.83
November	14.0	3.5	0.44	2.88	0.83
December 1995			0.42	2.86	0.77

■ GERMANY

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	10.0	8.7	4.64	5.90	1.79
1987	9.0	7.3	4.08	6.14	2.21
1988	9.7	8.4	4.34	6.46	2.61
1989	6.3	5.7	7.12	6.90	2.22
1990	4.5	4.5	8.49	8.66	2.11
1991	5.1	5.6	9.25	8.42	2.36
1992	7.0	8.2	9.52	7.80	2.45
1993	9.4	7.9	7.28	6.47	2.11
1994	9.6	9.0	5.36	6.86	1.77
1995			4.53	6.82	2.00
1st qtr.1995	3.8	0.3	5.11	7.41	1.90
2nd qtr.1995	2.8	−1.1	4.60	6.87	2.09
3rd qtr.1995	3.3	−0.7	4.41	6.68	1.98
4th qtr.1995			4.01	6.32	2.02
January 1995	3.9	1.4	5.16	7.58	1.88
February	4.3	0.1	5.10	7.40	1.83
March	3.3	−0.5	5.07	7.26	2.00
April	2.5	−1.2	4.68	7.07	2.12
May	3.7	−1.5	4.59	6.85	2.10
June	2.3	−0.7	4.53	6.70	2.06
July	2.9	−1.2	4.58	6.79	2.01
August	3.3	−0.8	4.46	6.71	1.97
September	3.5	−0.1	4.19	6.56	1.96
October	4.0	−0.1	4.09	6.55	2.04
November	4.5		4.01	6.32	2.04
December 1995			3.94	6.07	1.97

■ FRANCE

	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	6.9	6.4	7.79	8.36	2.65
1987	4.1	11.5	8.63	9.46	2.75
1988	3.9	8.3	7.94	9.08	3.69
1989	7.5	10.0	9.40	8.79	2.88
1990	3.8	9.3	10.32	9.92	3.19
1991	−4.9	2.4	9.62	9.03	3.58
1992	−0.2	5.4	10.36	8.57	3.55
1993	1.8	−3.0	8.55	6.75	3.21
1994	2.9	1.9	5.84	7.21	2.99
1995			6.60	7.53	3.17
1st qtr.1995	−0.6	3.0	6.65	8.07	3.22
2nd qtr.1995	1.3	4.5	7.47	7.59	3.10
3rd qtr.1995	3.1	6.0	6.12	7.35	3.11
4th qtr.1995			8.14	7.10	3.25
January 1995	0.7	2.6	5.92	8.19	3.20
February	0.9	3.3	5.83	7.99	3.21
March	−0.6	3.0	8.07	8.01	3.26
April	−0.0	3.4	7.78	7.80	3.11
May	1.6	4.2	7.46	7.54	3.05
June	1.3	4.5	7.18	7.45	3.14
July	0.5	4.2	6.44	7.42	3.09
August	1.2	5.1	5.96	7.30	3.06
September	3.1	5.0	5.98	7.34	3.19
October	0.7	3.3	6.89	7.47	3.31
November			5.90	7.08	3.20
December 1995			5.60	6.76	3.23

■ ITALY

	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	10.6	8.4	13.25	11.47	1.41
1987	10.4	9.6	11.32	10.58	1.94
1988	7.8	8.5	11.24	10.54	2.71
1989	7.1	9.3	12.42	11.61	2.46
1990	9.3	10.1	11.98	11.87	2.84
1991	7.3	8.5	11.83	13.20	3.45
1992	6.7	7.7	13.86	13.29	3.63
1993	4.6	7.4	10.22	11.23	2.35
1994	6.6	5.1	8.48	10.56	1.67
1995			10.38	12.22	1.72
1st qtr.1995	1.1	0.0	9.70	12.79	1.70
2nd qtr.1995	−0.5	−0.5	10.69	12.71	1.76
3rd qtr.1995	−0.2	0.5	10.52	11.79	1.64
4th qtr.1995			10.60	11.59	1.77
January 1995	0.8	−0.0	9.05	12.40	1.66
February	1.8	0.2	8.88	12.41	1.64
March	0.8	−0.1	10.96	13.48	1.79
April	−0.6	−0.6	10.84	13.44	1.72
May	0.1	−0.2	10.41	12.37	1.68
June	−0.8	−0.3	10.85	12.41	1.86
July	−0.9	−0.4	10.88	12.23	1.75
August	−0.3	0.4	10.44	11.67	1.58
September	0.6	1.5	10.26	11.49	1.61
October	0.4	1.8	10.89	11.94	1.76
November	0.5	2.1	10.60	11.64	1.81
December 1995			10.51	11.18	1.74

■ UNITED KINGDOM

	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1986	4.0	15.4	11.02	10.21	4.35
1987	4.7	15.2	9.77	9.89	3.60
1988	6.8	17.3	10.41	9.62	4.48
1989	5.9	17.6	13.96	10.11	4.36
1990	5.3	16.1	14.82	11.56	5.07
1991	2.4	8.0	11.58	10.08	4.97
1992	2.4	5.1	9.74	9.09	4.91
1993	4.8	3.5	5.99	7.40	4.01
1994	6.4	5.0	5.57	8.01	3.94
1995	6.0		6.77	8.16	4.15
1st qtr.1995	6.6	4.9	6.73	8.60	4.25
2nd qtr.1995	6.0	6.2	6.76	8.19	4.21
3rd qtr.1995	5.8	8.2	6.87	8.09	4.08
4th qtr.1995	5.6		6.71	7.77	4.04
January 1995	6.6	4.5	6.64	8.66	4.23
February	6.1	4.7	6.80	8.60	4.24
March	7.0	5.5	6.74	8.54	4.36
April	6.3	5.5	6.78	8.38	4.27
May	5.9	6.4	6.79	8.13	4.19
June	5.7	6.8	6.73	8.09	4.17
July	5.7	8.0	6.89	8.23	4.11
August	6.1	8.4	6.88	8.10	4.07
September	5.5	8.2	6.83	7.92	4.06
October	5.2	8.9	6.81	8.09	4.04
November	5.6	9.3	6.73	7.76	4.05
December 1995	5.9		6.57	7.46	4.04

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yields: period averages of the gross dividend yield on the relevant FT-A world index.

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Republicans at odds over budget row tactics

By Jurek Martin, US Editor, in Washington

Two prominent leaders of the Republican Party in the US Congress have conceded that they do not want to use the federal debt ceiling as a bargaining chip so as to force President Bill Clinton to sign a satisfactory agreement on a balanced budget.

But they face resistance from rank-and-file conservative Republicans in the House of Representatives, unhappy that a second pressure instrument, with closure of the federal government, seems to have been removed from the negotiating table.

White House budget talks are due to resume tomorrow, with Mr Clinton remaining optimistic about a solution, but Republicans less so. The latest Republican tactic is to use "targeted appropriations" – refusing to fund selected government operations – as a means to cut federal spending.

Over the weekend, both Mr Newt Gingrich, Speaker of the House, and Mr John Kasich, chairman of its budget committee, spoke of finding a way to enable the US government to meet its financial obligations. This matter could approach another crisis point in the middle of next month, according to the US treasury, if the current $4.900bn debt ceiling were not raised.

Mr Gingrich, on a West coast tour, said Congress "will find a way to take care of the debt limitation problem." Mr Kasich, more obviously reflecting concerns in the financial markets, said: "My sense is that you don't want to mess around with defaulting".

But the Speaker, already under fire from hard-line right-wingers for going too far in accommodating the administration, said he doubted that more than 50 Republicans in the House would vote for an unconditional increase in the debt ceiling.

He said any extension might need to be qualified by language expressly prohibiting the treasury secretary from using federal pension funds to enable the US to meet its debt. The treasury has avoided default over the past two months by temporarily turning into cash about $80bn of securities it would otherwise have invested in two retirement funds. It is also exploring other means to raise cash in case the ceiling were not lifted.

Mr Kasich, who said the Republicans and the administration were "miles and miles" from any budget accord, thought there were "other ways of getting him [Mr Clinton] to do things he doesn't want to do".

He specifically mentioned withholding funds from activities dear to the president, such as the youth national service corps, the commerce department and the education department's Goals 2000 programme. Last week, Congressman Tom DeLay, the majority whip, had put the national endowment for the arts on a potential Republican hit-list.

That might be popular in the House but has less obvious appeal in the Senate, where the votes may not exist to override any presidential vetoes.

Mr Gingrich, meanwhile, continues to experience problems with his freshman Republican members of the House. He cancelled appearances at fund-raising rallies for four of them in retaliation for their refusal to support his initiative 10 days ago to reopen the federal government after its three-week partial shutdown.

He has sought to mollify them on his West coast tour by turning up the rhetoric against Mr Clinton, describing him, in one speech, as "factually challenged". But some of the freshman group now seem more inclined to look to the likes of the uncompromising Mr DeLay for leadership.

Hillary Clinton fights fresh barrage of criticism

Jurek Martin finds trouble and strife surging around the First Lady as her husband's popularity rises

Hillary Rodham Clinton attracts extreme opinions. The First Lady of the US is Joan of Arc to her fans and Eleanor Roosevelt to her husband, President Bill Clinton, but she is Lady Macbeth to her critics and "a congenital liar" to a New York Times columnist who once wrote speeches for that paragon of truth, Richard Nixon.

It now appears impossible for her to cross the road without controversy. She is this week promoting her new book – a collection of essays about child-rearing and public policy towards children entitled It Takes a Village. But even this has attracted charges that she used, but failed to acknowledge, a ghostwriter.

It is also impossible to know the truth of the other allegations against her, other than to note, as President Bill Clinton did last week, that an allegation "is not a fact". But it is undeniable that, again, she has become an issue in a presidential election campaign that had appeared recently to be turning in her husband's favour.

The ever-changing bill of particulars against her now encompasses both her legal and financial participation in the Whitewater affair and her role in the White House travel office upheaval of 1993. She stands accused of being economical with the truth over both issues and dilatory in the extreme in producing documents the Senate Whitewater committee considers relevant to its inquiries.

That committee is not impartial. Its chairman, Senator Al D'Amato of New York, happens to be one of the campaign chairmen for Senator Bob Dole, Mr Clinton's most likely presidential opponent in November. Senator Chris Dodd, a committee member and co-chairman of the Democratic party's national committee, charged that the panel had become "players in the opening act of the 1996 campaign".

Mr D'Amato refused to release until last week an independently commissioned report compiled months ago by a well known Republican lawyer, which concluded that the First Family were liable for no civil damages for their conduct in relation to the bankruptcy of Madison Guaranty, the Arkansas savings and loan firm at the heart of the Whitewater investment.

Last week, for example, the committee spent five hours interrogating Mr Richard Massey over whether in 1985-86 he or Mrs Clinton introduced Madison to the Rose Law Firm, which he had joined straight from law school and where she was a senior partner.

She had said he did the introduction, he basically said he could not remember but added that he, not she, did most of the legal work on Madison. Mrs Clinton claims that 60 billable hours of work during 15 months constituted minimal involvement, a contention Mr D'Amato openly doubts.

Hand in hand: Mrs Clinton remains a target for many Picture: UPPA

He also questions whether it was ethical of her to have made a phone call about a possible issuance of preferred stock by Madison to the Arkansas securities commissioner, an appointee of her husband. But Mr D'Amato, an artist in innuendo, has yet to produce any evidence amounting to a "smoking gun".

The travel office affair centres on whether she personally ordered the firing of its seven employees at the urging of friends from Arkansas interested in acquiring some of the business. A memo released 10 days ago by a former White House aide, Mr David Watkins, implied her hand was evident, though even that would hardly be precedent-shattering for a First Lady – Mrs Nancy Reagan was widely assumed to have engineered the dismissal of Mr Donald Regan, her husband's White House chief of staff.

In fact the travel office was an acknowledged mess at the time. Its head, Mr Billy Dale, was acquitted last year on charges of embezzling funds, but only after admitting diverting thousands of dollars to a personal account – not for personal gain but to make the operation run more efficiently, he said.

Running through everything are the actions Mrs Clinton is suspected of taking in the immediate wake of the suicide in 1993 of Mr Vincent Foster, the deputy White House legal counsel and her close friend and personal lawyer, when documents were removed from his office to the First Family's private quarters.

Mrs Clinton insists these were private files of no relevance to investigations into the circumstances of his death. That, naturally, dissatisfies her critics also demanding to know the nature of the many phone calls between the First Lady, then in Arkansas, and her staff.

She is fighting back. Having heard her husband recall the precedent of President Harry Truman, who threatened to "punch out" a Washington Post music critic for an unfavourable review of his daughter's singing concert, she did not hesitate over the weekend to note that Mr William Safire, the New York Times columnist, used to work for President Nixon, adding, "and still is".

The newspaper's letters columns were dominated by condemnations of Mr Safire's attacks last week and yesterday Mr Anthony Lewis, another of its pundits, defended the First Lady with an article that claimed that all the charges against her were politically motivated and constituted "bricks without straw".

She has not ruled out appearing in person in front of the D'Amato committee, a prospect that has Washington salivating in expectation. Even Mr Safire conceded that she could probably run rings round the senators and one senior Republican on the panel, Senator Orrin Hatch of Utah, hoped over the weekend that such a confrontation would not take place.

However, the onus is probably on Mrs Clinton to lay out all she knows with the force of argument of which she is eminently capable. That will not stop the steady flow of denigration that appears her lot, but it could reduce it to a manageable drip. As she put in a radio show yesterday: "I'm prepared to do anything – including going to the South Pole."

Prospects better for new coalition

Canute James assesses Trinidad, now its budget has found favour

Trinidad and Tobago's coalition government, put together after a general election last November, has passed its first serious test. Business and labour have welcomed the 1996 budget presented by Mr Brian Kuei Tung, finance minister, which included reductions in personal and corporate taxes, and in import duties. This will have eased concerns about the administration's longer-term prospects.

The country's cynical political cognoscenti, however, still question the latest political marriage. With the election having ended in a tie of the two main parties, Mr Basdeo Panday, leader of the United National Congress, took office with the support of the National Alliance for Reconstruction which has two seats.

The last such arrangement, nine years ago, ended in a public divorce whereby Mr Arthur Robinson, NAR leader and then the prime minister, dismissed Mr Panday from government. Mr Robinson then had a comfortable majority which let him stay in office. Now, though, the survival of Mr Panday's government depends on the two NAR seats.

Of the latest pact, Mr Panday said: "All I can say is that Mr Robinson and I have committed ourselves to trying to make it work. When we tried the experiment in 1986, we were treading on virgin territory. We did not expect we would not make mistakes. Now we are partners in trying to run the country." Mr Robinson appeared equally willing to learn from the past.

The chances of the government's survival have been enhanced by two developments. The two leaders agreed not to merge their parties, and Mr Robinson said very early that he was not interested in becoming prime minister.

Rather than accept a cabinet portfolio, he is exercising more significant influence on the government from his position as a special adviser to the prime minister. He acted as prime minister during Mr Panday's brief illness this month.

The agreement removed the need for Mr Panday to call an early election, but he must be concerned that the coalition has only two seats more that the opposition People's National Movement. Government MPs cannot afford to be ill or abroad when crucial votes are taken.

The second factor which enhances the government's chances of survival is the disarray within the PNM. Mr Patrick Manning, party leader and former prime minister, is fighting off a rebellion led by his deputies who want him to resign. This is the price he is paying for what seems to have been a misreading of the public mood when he called the election a year before it was due.

Mr Panday is Trinidad and Tobago's first prime minister of Indian descent. Race has been central to politics of the Caribbean state of 1.3m people. Indo-Trinidadians have backed the UNC, while the PNM, which has formed the government in all but five of 33 years since independence from Britain, is traditionally supported by Afro-Trinidadians.

Although the pact with the NAR has given him a majority in parliament, Mr Panday is advocating a government of "national unity. That is why we shall be attempting to increase our majority by inviting members of the PNM to join the national front government," the prime minister added.

The administration faces the challenge of high unemployment, officially at 16 per cent. However, Mr Panday has inherited an economy which, although still under some uncertainty, appears to be on the mend after several years of stagnation. Dislocations caused by structural adjustments, made by the previous administration, including the deregulation of the foreign currency market, have not been as severe as expected.

Expansion of 4.8 per cent of GDP in 1994, followed by 2.3 per cent in the first half of last year, indicates an end to five years of stagnation in the energy-based economy. The improvement is likely to continue with increases in oil and gas production, and expansion of petrochemical production through investments by North American, European and local companies.

Doubtful win for local clout in Brazil state

Angus Foster examines the decision to exempt São Paulo's Banespa bank from privatisation

With a twist of irony in the Brazilian style, Governor Mário Covas of São Paulo state last week was explaining his privatisation plans to Mr Kenneth Clark, the visiting British chancellor, while, down the corridor, the governor's officials were making sure the state's biggest bank, Banespa, was removed from a privatisation list.

Banespa was Brazil's second-largest bank in terms of net assets when the federal central bank took over in December 1994, amid a liquidity crisis. The agreement last week for São Paulo to resume control resolves the bank's short-term future and is a victory for Mr Covas, who had virulently opposed central bank demands for privatisation.

But the settlement raises many more questions about the bank's longer-term future, and highlights how often President Fernando Henrique Cardoso has to place political expediency ahead of good intentions.

Under the agreement, which still needs parliamentary approval, São Paulo's 15.1bn Reals ($15.6bn) debt to Banespa will be taken off the bank's books. About half will be refinanced with long-term bonds issued to the state by the national treasury. Money for the other half will be raised by São Paulo selling three airports and most of its railways to the federal government.

Thus Banespa will be freed of its biggest, and worst paying, debtor, and will be ready to compete with the private sector, according to Mr Covas. "I don't want Banespa simply for the pleasure of saying it belongs to São Paulo. I want it cleaned out and playing a full role in the state," he says.

Banespa's present situation is very difficult to assess because it has been prevented from publishing any financial information for more than 18 months by an injunction from a former São Paulo governor, accused of using the bank for political ends. The bank is assumed to have lost money in that period, and to have suffered a large fall in deposits last year as customers sought safer havens.

Analysts agree that Banespa's extensive branch network and privileged position as the state government's banker give it protections against more agile private competitors. Even so, there is agreement that Banespa needs streamlining. It has 1,600 branches – mainly in São Paulo – or 60 per cent more than its private sector peer, Itaú, which has a national network. Although Banespa's payroll has been shrunk in the last year, by nearly 5,000 people to about 30,000, this hardly closes Banespa's productivity gap with other banks. In 1994, its employees per branch ratio was still twice that of its private sector rival Bradesco.

Addressing these problems will not be easy while Banespa remains under politicians' control – one reason private sector bankers insist it should be privatised. Politicians often use state-owned banks to find jobs for supporters and are reluctant to close branches or reduce staff, especially ahead of elections. Municipal elections are due in October in Brazil; little progress is expected this year.

Mr Covas claimed that new articles of association, which will be written for Banespa, should remove some risk of political meddling in it. He said the bank's management would be chosen for professional rather than political reasons, although it is unclear whether the central government will have a veto over nominations.

But the governor failed to reassure private sector bankers in São Paulo. "Since 1993, state banks have been forbidden to lend to their governments, but nobody knows whether to believe it. The worry is that Mr Covas's successor can still do as his predecessor, and almost bankrupt Banespa again," one said.

The central government's concession to Mr Covas, a close ally of President Cardoso, reflected the latter's need to shore up support in Congress, where several of his proposed reforms to the social security and tax systems face difficulties. Mr Covas has influence over São Paulo's 70 deputies in the 513-seat lower house, and a battle over Banespa at this stage could have further delayed reforms.

Mr Cardoso never appeared personally committed to Banespa's privatisation, even though he let the finance ministry and central bank dictate policy on state banks early last year. But the central bank was weakened by a bungled currency devaluation in March and by political opposition to its takeover of an important northern bank in Brazil, Banco Econômico.

Mr Cardoso's public abandonment of the central bank may damage its reputation, and probably ends the debate over its greater independence. The financial cost has also been high. During the year under central bank administration, São Paulo's debt to Banespa increased by 5.7bn Reals because of Brazil's very high short-term interest rates.

The central bank denies it lost credibility handling Banespa. According to an official, privatisation may happen sooner than expected: "São Paulo has to pay [the equivalent of] $63m-$73m a month in interest and other costs for the next 30 years because of this agreement. I think someone will realise that's a waste of money and they're better off selling the bank."

Cardoso: Political expediency has overtaken good intentions

Banespa's staff newspaper was in no mood to sell, and in no doubt what the settlement meant. "Victory!" its front page screamed last Thursday. With the bank now likely to remain in the public sector until the next millennium, it may take a while to decide who are the real losers.

Soros buys farm land in Argentina

Mr George Soros, the billionaire financier, has begun to increase his business presence in Argentina by snapping up rich farm land on the pampas, AFP reports from Buenos Aires.

The investor is now dubbed "the most powerful landowner in Argentina" by the Clarín newspaper.

Mr Soros's interest in the Argentine pampas – the fertile plains that are one of the world's main zones for wheat and other grains – emerged after a Gatt meeting in late-1993 which sharply curtailed farm subsidies in the European Union and the United States, the newspaper said.

That threw the investment spotlight on accumulating large landholdings in Argentina, a strategy which also has attracted attention from investors in Germany, Spain and Argentina's neighbour Chile.

In October 1994, Mr Soros acquired Cresud, the only Argentine rural landholding company traded on the local stock market, which was owned by the Belgian group Eternit.

Since he poured $64m into Cresud, its holdings have soared from 20,000 hectares to 348,000.

Mr Soros and his agribusiness partners in Argentina plan to spend another $30m on land acquisition for Cresud, according to Clarín.

The company, with $90m in assets, is expected to have $12m in revenues this year, with profits of about $4m.

Cresud's local managers say the secret of its recent success has been an upgrading of harvest equipment, and use of new fertilisers and risk analyses to enhance crop yields.

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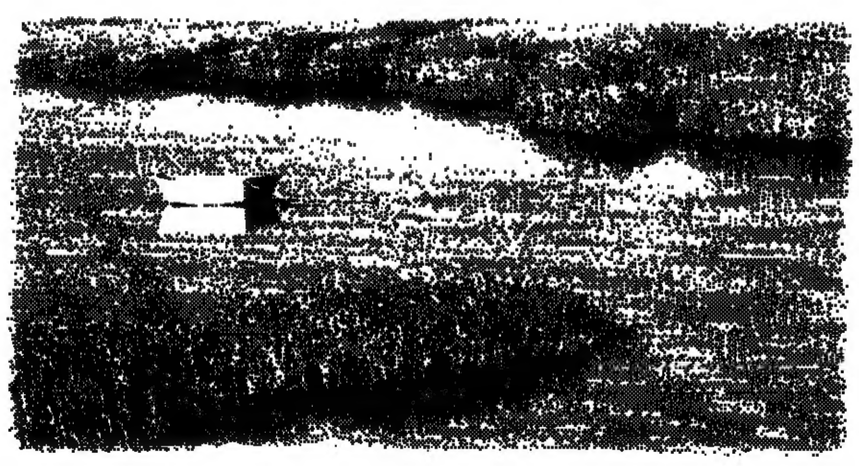

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MPs rap chancellor for 'over-optimism'

By Robert Chote, Economics Editor

Mr Kenneth Clarke, the UK chancellor of the exchequer, was accused by MPs yesterday of over-optimism and wishful thinking in his Budget forecasts of economic activity and government borrowing.

The Treasury select committee, on which Conservative members hold a narrow majority, warned that it was now less likely after November's Budget that the chancellor would achieve his target of balancing the government's books over the medium term.

The rise in the chancellor's forecast of the public sector borrowing requirement over the next few years was "perhaps the biggest disappointment in this year's Budget", the committee said. The MPs warned that policies to promote employment flexibility may have made it more difficult to raise income tax revenue. Companies might also have become more adept at avoiding corporation tax.

The committee was sceptical about a range of Mr Clarke's Budget predictions, saying that it was was broadly in favour of the Budget's overall stance, but that it was difficult to reconcile the chancellor's upbeat expectations with his decision to cut taxes and interest rates.

The MPs argued that companies might take more drastic action to clear their shelves of unsold goods than the Treasury had bargained for. "We are concerned that the rundown of this stock overhang may in fact be concentrated in the first two quarters of the year, thereby dealing a serious blow to the growth outlook for the year as a whole".

The committee said it doubted whether consumer spending would rise as strongly as the chancellor predicted. Exporters might in addition find it more difficult than the chancellor thought to lift their share of world markets this year, having raised their prices.

The MPs also cast doubt on the Budget prediction of a 9 per cent rise in business investment this year, arguing that improving company finances might not provide a sufficient spur.

The MPs warned too that the Treasury should not yet assume that the economy was now able to sustain a stronger trend growth rate without pushing up inflation.

The Treasury argues that trend growth has probably risen to around 2½ per cent from 2-2¼ per cent. The committee said it would have to explain why the economy could now sustain a lower rate of unemployment than it thought possible a year ago for this change of heart to be credible.

The committee also had a message for Mr Eddie George, the governor of the Bank of England. It warned that his natural tendency to err on the side of caution in interest rate policy would not help the Bank's credibility in the long run. The MPs also warned the Bank against taking a consistently pessimistic view of inflation when giving its advice.

Gamble with stability, Page 18

Manufacturers hit by cost surge

By Robert Chote

Higher prices for fuel and crude oil pushed up UK industry's raw material costs unexpectedly sharply last month, but weaker demand is preventing industry from passing big price rises on to customers.

Fuel and raw material costs rose by 1.6 per cent in December, according to the Central Statistical Office.

But most of this increase was a rise in electricity prices paid by manufacturers which is typical for the time of year. After adjusting for this seasonal effect, raw material prices rose by 0.4 per cent, reversing most of the decline recorded in the preceding two months.

Industry's input costs have risen by 5.8 per cent over the past year, the smallest such increase for 16 months. Input price inflation peaked in April last year at 12 per cent, declining subsequently as commodity prices weakened.

Mr Ciaran Barr, UK economist at Deutsche Morgan Grenfell, the investment bank, said that December's relatively large cost increase had resulted in part from the recent weakness of the pound. Such weakness makes goods bought in foreign currency more expensive in sterling terms. Oil prices were also pushed up by the unusually cold weather in the US.

"With large increases from last year set to drop out of the index, the annual rate will fall quite sharply in coming months," Mr Barr said.

The recent slackening in input cost increases has alleviated some of the pressure on manufacturers to safeguard their profits by increasing prices.

Manufacturers raised their output prices by 0.8 per cent last month, but almost all the increase was the result of changes to excise duties announced in the Budget in November. There was also some impact as the higher fuel and oil prices were passed on.

The effect of the Budget was much the same as it was last year, so the annual rate of output price inflation remained stable at November's 4.3 per cent, the lowest figure since June. Excluding prices in the food, drink, tobacco and petrol industries – which are affected by the Budget changes – output prices rose by a seasonally adjusted 0.2 per cent, compared with 0.3 per cent in November and 0.1 per cent in October.

Comparing the fourth quarter with the third, output price inflation was running at a rate equivalent to 2.5 per cent a year. Input prices were falling over the same period.

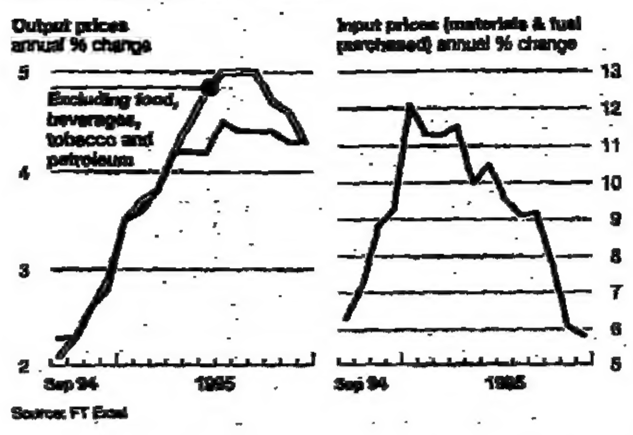
Mr Michael Saunders, UK economist at Salomon Brothers, the US investment bank, predicted that output prices would slow further in coming months. He noted that last autumn had seen the biggest rise in stocks of unsold goods for 20 years.

"With output prices already slowing sharply – and surveys pointing to a further slowdown in coming months – underlying inflation is likely to head lower and drop below 2.5 per cent around mid-year. As inflation pressures ease, base rates are likely to fall again, probably reaching 6 per cent by mid-year," he added.

Mr Kenneth Clarke, the chancellor, and Mr Eddie George, the governor of the Bank of England, will discuss both the output and input price figures when they meet to mull over interest rate policy at the Treasury tomorrow.

Most analysts expect base rates to remain unchanged.

Industry's prices climb



Source: FT Excel

British Coal loses ruling on vibration

By Robert Taylor, Employment Editor

British Coal could face compensation claims worth millions of pounds after a landmark High Court ruling that the company had been negligent in not dealing with health risks arising from a disease called Vibration White Finger.

This industrial ailment affecting the circulation and neurological function of the hand is caused by prolonged exposure to vibration through handheld drilling tools and pneumatic picks. It can cause permanent damage to nerves, muscle and bones in the finger and result in disability.

Law firms representing mining unions based a test case on nine former miners from the north-east of England. The firms said last night the ruling did not mean the nine were automatically entitled to compensation. But it was "a crucial step to establishing the first stage of liability in all pending cases".

It was unclear last night whether British Coal would appeal. The company faces similar claims from 500 present and former miners.

The lawyers said it was impossible to estimate compensation anyone would receive. Amounts would vary depending on the severity of symptoms. But the sums could range between a few thousand pounds and substantially more, depending on loss of earnings and restricted employment opportunities.

"British Coal may still argue about other liability issues in each of the individual cases as well as about the amount they should pay," the lawyers said.

British Coal said last night it was "inappropriate to comment before we have had time to consider the judgment and its implications in full". The company had not disputed that the men suffered from VWF but the case revolved around whether it should have taken appropriate action against the dangers of prolonged exposure to vibration.

Arms body may suggest elected assembly

George Mitchell's commission is due to report to London and Dublin later this week

By John Kampfner in London and John Murray Brown in Dublin

The international commission looking at paramilitary weapons is expected to raise the option of an elected assembly for Northern Ireland in its report to the British and Irish governments at the end of the week.

Speaking after a flurry of meetings in Belfast and Dublin, Mr George Mitchell, the former US senator who chairs the three-man panel, said he hoped he would be able to submit his proposals by Friday.

Mr Mitchellsaid that the delay of at least 24 hours in submitting the proposals had been caused by the need to hold further discussions with several parties. Yesterday he held talks with UK ministers, Sinn Féin and Ulster Unionists.

Irish officials suggested yesterday that they expected Mr Mitchell's team to include the proposal of an assembly or convention – floated in various guises by the UK government and Unionist parties – in its findings.

The idea has been discussed in the liaison group between the governments – although Dublin is extremely wary of it.

Mr Dick Spring, the Irish deputy prime minister, said any election at such a sensitive time for the province "could be divisive". Mr Spring was in Belfast for talks held jointly with the British and involving the Social Democratic and Labour Party.

The SDLP is opposed to the assembly plan and is concerned that some members of Sinn Féin, notably its chairman, Mr Mitchel McLaughlin, have suggested that they might consider it.

Mr John Hume, the SDLP leader, warned that an assembly would turn into "a shouting match".

He said it would constitute a "complete abandonment" of the traditional approach. "This problem is a British-Irish problem, it's not simply a Northern Ireland problem," he said.

Both governments will be hoping to gauge Sinn Féin's reaction to the likely findings of the commission in a meeting with Mr Gerry Adams, the Sinn Féin president, tomorrow. These will be the first such "trilateral" talks with the IRA's political wing.

One official said Mr Mitchell had been "very straightforward" and had given little away.

"The only way you can glean which way his mind is moving is through his questions," the official said.

Mr Mitchell, the official added, will be seeking to embrace elements of each of the submissions, combining Sinn Féin's suggestion of outside monitoring of any physical decommissioning with the assembly idea. This would be one of several options to circumvent the impasse over the timing of any weapons handover.

In negotiations to launch the latest phase in the peace process, the "twin-track" strategy in November, the UK government was adamant that the Mitchell panel should not dabble in politics but would confine itself to military considerations related to the decommissioning of paramilitary weapons. But much to Dublin's dismay, UK ministers now appear happy to see the panel broaden its remit to include a subject which Dublin believes should be strictly part of the political discussions.

"They haven't endorsed the idea, but British officials can talk of nothing else," said one Irish official.

The Irish government is worried that elections could force Unionists, with their in-built majority in the north, into more entrenched positions.

However, Mr David Trimble, the Ulster Unionist leader who first raised the idea, has argued it would enable Sinn Féin to enter into all-party talks without the IRA having first to disarm.

The idea, he says, would provide a "post-ceasefire" mandate for all parties.

Land Rover set for Army order

By Bernard Gray and George Parker

Britain's Ministry of Defence is likely to announce on Thursday that Land Rover has won a £35m ($53.9m) competition to supply the British Army with 700 battlefield ambulances in a fierce battle with Steyr Daimler Puch of Austria.

The decision, after pressure on Mr Michael Portillo, defence secretary, from MPs on both sides, overturns a recommendation by the Procurement Executive, the purchasing arm of the MoD, that the Austrian vehicle offered better value for money and was more reliable. The Army is also thought to have supported the Austrian vehicle on the grounds that it was faster, could cope with worse terrain.

In an extensive nine-month trial the Steyr only recorded one significant failure, while the Land Rover had 17. The Army also believes that the Austrian ambulance would cut the number of medical personnel needed.

However, Mr Portillo has been caught in a difficult bind with the armed forces and a value for money competition suggesting that the MoD should buy Austrian and his own nationalist rhetoric arguing that the MoD should buy British.

Steyr said yesterday that it believed its vehicle had won the technical arguments and if the Land Rover were selected despite that companies would not be prepared to enter into future MoD competitions for vehicles.

Airports report passenger numbers up 5.8%

By Michael Skapinker, Aerospace Correspondent

BAA, the UK's largest airport operator, yesterday announced that passenger numbers rose by 5.8 per cent in 1995, in spite of the first full year of competition from the Channel tunnel and the impact of strikes in France.

BAA said its seven airports handled 91.8m passengers last year, boosted by a 9.1 per cent increase in flights across the north Atlantic and an 11 per cent rise in other long haul routes.

But European scheduled services also managed a 3.3 per cent increase in spite of competition from the Eurostar cross-Channel rail service.

Eurostar carried 3m passengers last year and expects to carry 5m this year. This is well below the level forecast during construction of the tunnel. Sir Alastair Morton, co-chairman of Eurotunnel, said this month said that one of the problems had been the privatisation of British Rail, which had distracted managers from the promotion of Channel tunnel services.

BAA – which owns Heathrow, Gatwick, Stansted, Glasgow, Edinburgh, Aberdeen and Southampton airports – said domestic air traffic grew by 8 per cent, assisted by the launch of new low fare services. The only fall in traffic occurred in the European air charter market, where numbers were down 0.1 per cent, reflecting difficulties in the package holiday business.

Passenger numbers at London's Heathrow, Europe's busiest airport, rose 5.3 per cent to 54.1m. BAA's figures indicate that passengers travelled to and from the airport in increasingly large aircraft. Aircraft movements at Heathrow increased by only 2.3 per cent to 418,811.

BAA said aircraft seat occupancy was also higher than in 1994. The average number of passengers on each aircraft rose 3 per cent to 130 last year.

BAA is seeking planning permission to build a fifth terminal at Heathrow, which would increase annual passenger numbers at the airport to 80m. A public inquiry into the proposed terminal began in May last year. Local authorities and environmental campaigners are opposing the plans.

Campaigners against the fifth terminal say the government should insist that BAA makes greater use of Stansted airport in Essex rather than expanding Heathrow. BAA says Stansted does not have enough international connections to attract transit passengers, who make up about a third of Heathrow's customers.

Passenger numbers at Stansted did, however, rise by 19.4 per cent to 3.9m last year. BAA has asked the government for permission to lift the annual ceiling on aircraft movements at Stansted from 78,000 to 150,000.

This would allow the airport to handle 15m passengers a year. Aircraft movements at the airport last year rose 14.6 per cent to 66,069.

Edinburgh airport saw passenger numbers rise 9.3 per cent to 3.3m, largely at the expense of Glasgow, which fell 0.6 per cent to 5.4m.

Welsh speakers divided on language

People in Wales strongly support the Welsh language and 57 per cent want it to be more widely used, according to an opinion poll published yesterday, *Roland Adburgham writes*.

But more than a third believe the language is dying or is already dead.

Three-quarters of those questioned consider the language to be an asset, and believe that in Wales it should have equal status with English.

Eighty-three per cent think all public bodies in Wales should be able to deal with people in both Welsh and English and nearly half say the private sector does not make enough use of the language.

The survey of public attitudes to the Welsh language finds what is described as "national optimism and local pessimism," with 53 per cent saying the language has a future across Wales, but only 41 per cent that it has a future where they themselves live.

The poll was carried out by NOP and funded by the Welsh Language Board and S4C, the Welsh television channel.

Of 815 people interviewed across Wales, it found 18 per cent were fluent speakers and another 12 per cent could speak Welsh quite well or speak some sentences.

Ukrainian tall ship stopped in its tracks

A captain and his crew are still waiting to hear their fate

On the tall ship Tovarisch, a little piece of Ukrainian territory moored on the River Tyne, Captain Oleg Vandenko and his crew are desperate for 1996 to bring a solution to their plight.

Marooned without wages in North Shields, the captain and his nine crew members are surviving on local people's considerable goodwill while they await a decision from the Ukrainian ministry of education on the fate of their ship, an imposing and graceful 63-year-old vessel in urgent need of fundamental repair.

The Tovarisch, attached to Ukraine's Kherson merchant marine college has in recent years been used to train merchant seamen while also selling training places internationally to young people who learn how to sail.

The ship arrived in the Tyne last May after a 6,000-mile voyage from Kherson to undergo two months of repairs financed by a local charitable appeal and support from Tyneside companies.

The repairs were expected to cost £500,000 ($770,000). But once the Tovarisch was in dry dock – just days before her maritime inspection certificate expired – ship repairers A & P Tyne discovered the cost of repairs to the 264 ft long vessel could exceed £2m.

In limbo: Tovarisch captain Oleg Vandenko says: "Every day my crew are coming to me saying, 'Captain, what is our future?'"

Since then the Tovarisch, now deemed unseaworthy unless towed, has been tied up free of charge at Albert Edward Dock at North Shields, a defunct coal harbour which once imported timber from the Ukraine.

With help from ferry and airline companies and the Newcastle-based Tovarisch Support Group, most of the original 46 crew have returned to the Ukraine.

But for the 10 still on board, including six now away from home for nine months, the protracted uncertainty is deeply worrying.

Last month the money Captain Vandenko received from the Ukraine only barely covered the cost of maintaining the ship in its present state; since November he and his crew have been without wages to feed themselves or send money home to their struggling families.

"It's very difficult for me as captain, it's a no-good situation, and for my crew also," he says. "Every day my crew are coming to me saying: 'Captain, what is our future?' "

Captain Vandenko, who joined the Tovarisch in 1955 and became her captain in 1968, says: "My ship is a very old lady, she needs a big repair to her hull." He adds: "This isn't my ship, it's my life."

The Tovarisch's situation is not hopeless. The Teesside Development Corporation – this year developing a National Tall Ships Centre at the disused Middlesbrough Dock – has made the Ukrainian government a proposal to finance some £400,000 of repairs and to help in fundraising for the rest, in exchange for using her as an accommodation vessel and a flagship at the Middlesbrough centre for two years.

The corporation has yet to receive a response. Mr Bob Wellburn, the chairman of the Tovarisch Support Group, thinks this may mean that the Ukrainian government is weighing the corporation's scheme against a proposal from a German-Ukrainian youth foundation and, possibly, a plan by German investors to buy her for use as a luxury Caribbean cruiser.

Back at the Tovarisch, crew members continue essential maintenance, welcome their many well-wishers and tinker with a Lada acquired on Tyneside by Mr Oleg Babitch, the bosun.

And every so often, Captain Vandenko telephones Kherson in the hope of a government decision. "I ring the deputy manager and he says: 'Captain, there's no news.' "

Chris Tighe

UK NEWS DIGEST

Lloyd's Names hail legal ruling

The High Court in London indicated yesterday that more than 1,600 members of Lloyd's of London should get about £175m ($269.5m) in damages following an earlier ruling that they were victims of incompetent underwriting.

Jubilant leaders of the Feltrim Names' Association, which launched the claim against 54 professional Lloyd's agencies, claimed the level of the award vindicated the court action and "could not have been more satisfactory".

In contrast, lawyers for the agencies' insurers - from whose funds most of the damages will be paid - said that the Names, would have got more, between £220-£240m, by accepting an out-of-court settlement offered by Lloyd's in 1994.

The High Court ruled in March 1995 that the Names, individuals whose assets traditionally support the market, were entitled to damages after losing more than £500m. Yesterday Mr Justice Longmore indicated the mechanism which would set the level of damages. He ruled that the Lloyd's agencies should pay costs. *Jim Kelly, Accountancy Correspondent*

Ferry evacuation delay concern

Serious delays in evacuating passengers during a mock emergency on a ferry at Dover last weekend were the result of volunteers behaving "over cautiously", Sir George Young, the transport secretary, said yesterday.

The evacuation of the 845 passengers and crew from the Stena Invicta took 65 minutes – more than twice as long as the Commons transport select committee's recommended time of 30 minutes. Responding to criticism from a Labour MP, Sir George said volunteers were urged to be over-cautious during the exercise. The exercise was designed to test the effectiveness of the Marine Escape System, in which passengers are evacuated into lifeboats via inflatable chutes, one method accepted by the panel of safety experts set up in the wake of the Estonia ferry disaster in 1994. *George Parker*

Modernisation for steel plant

British Steel is to invest £70m ($107.8m) in modernising its Teeside and Scunthorpe works in a move which will end the mass-production of steel by casting ingots – a process which dates back to the Industrial Revolution.

The Scunthorpe programme, designed to raise quality and cut production costs, will replace ingot casting by a new continuous caster, a machine which produces steel in continuous lengths ready for rolling into bars, beams and other products. British Steel, which announced the investment programme yesterday, plans to spend £53.5m over the next 18 months on the continuous caster and a further £16.5m at Teeside on modernising its universal beam mill.

Stefan Wagstyl, Industrial Editor

Engineering findings rejected

UK precision engineering companies have rejected claims by a UK think-tank, that US precision engineering companies achieve much higher productivity levels than they do.

The report, published yesterday by the UK-based National Institute of Economic and Social Research, said US companies in three selected areas of precision engineering – had productivity up to two-thirds higher than their UK counterparts. But Mr Martyn Thomas, the managing director of the Sulzer, the engineering group, said the company's UK operations compared favourably with those in the US in terms of output per employee, and claimed that UK companies also performed equally well on other measures of productivity which included added value and delivery lead times. *Lisa Wood*

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Still, many managers can claim to be achieving just that balancing act without receiving their reward in terms of trust. So how *do* you build up trust in a world less and less disposed to grant it?

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Football fees contrary to rules

EUROPEAN COURT

The imposition of a fee for the cross-border transfer of football players within the European Union was contrary to the Treaty of Rome rules on the free movement of workers, the European Court of Justice ruled recently.

The court also found that restrictions on the number of foreign EU nationals a club may field were contrary to the same treaty provisions.

The case arose out of a dispute between Mr Jean-Marc Bosman, a Belgian footballer, and his club RC Liège. Mr Bosman claimed that Belgian transfer rules had prevented his transfer to Dunkerque, a French club. He brought an action against RC Liège and later against the Belgian Football Federation and the Union of European Football Associations.

Mr Bosman sought a declaration from the national court that the transfer rules and nationality clauses were not applicable to him on the grounds that they were incompatible with both the Treaty of Rome rules on competition and the free movement of workers. The issue was referred to the European Court of Justice.

The court ruled first that sport was subject to European law only insofar as it constituted an economic activity within the meaning of the treaty. The treaty provisions on the free movement of workers did not therefore preclude rules justified on non-economic grounds relating to the particular nature and context of certain matches. However the restrictions could not be relied on to exclude the whole of football from the scope of the treaty.

As to the transfer rules, although they also applied to internal transfers within one member state, the court held that they still directly affected players' access to the employment market in other member states and were thus capable of impeding freedom of movement of workers. They were therefore an obstacle to the treaty provisions.

The justifications put forward by the federations were not accepted by the court as the aims behind the transfer rules – the maintainance of a financial and competitive balance between clubs and the support of young players – could have been achieved by other means which did not impede the free movement of workers.

Although Mr Bosman had not been affected by the nationality rules, it had been held by the national court that they could impede his career by reducing his chances of being employed or fielded by a club from another member state. The court did not question this assessment.

The relevant treaty provisions expressly provided for the abolition of any discrimination based on nationality between EU workers as regards employment, remuneration and conditions of work. The fact that the restrictions did not concern the employment of such players, but rather their use in official matches was irrelevant, the court said, as they would have the effect of restricting the employment chances of the player concerned.

As the restrictions did not concern national team matches, but rather all official club matches, the restrictions could not be justified. Although the European Commission had sanctioned certain restrictions, the court held that, except where specifically authorised, the Commission could not give guarantees concerning the compatibility of specific practices with the treaty. In any event, it did not have the power to authorise practices incompatible with the treaty.

Finally, the court said that because the effect of European law on the transfer rules had been uncertain, claims relating to the payment of transfer fees could not be brought in respect of payments already made or still payable under an obligation arising before the judgment, except for those actions which had already been brought before the judgment. This temporal limitation did not apply to the nationality restrictions, as European law had been clear on the issue.

As the court had already found the transfer system and the nationality rules incompatible with the Treaty rules on free movement of workers, it did not consider the competition issues.

C-415/93: Royal Club Liégois and others v Bosman, ECJ FC, December 15 1995.

BRICE COURT CHAMBERS, BRUSSELS

A question of safety

Robert Rice explains the European Union's product liability legislation

Halfway through December, the European Commission handed the European manufacturing and insurance industries an early Christmas present. After completing the first review of the 1985 Product Liability Directive, the Commission concluded that it should be left unchanged for a further five years.

That was not welcome news to European consumer organisations, which had been pushing Brussels to tighten the legislation. The directive, which makes manufacturers strictly liable for damage caused by defective products, contains three provisions that are optional. Consumer groups wanted them abolished; industry was anxious to retain them.

Member states can choose whether to:

- Exclude agricultural products from the scope of the directive;
- Impose a cap on damages of not less than Ecu70m (£55m);
- Allow the "development risks defence". This allows pharmaceuticals companies, for example, to escape strict liability under the directive for any harmful side effect of a drug which the company could not have been expected to know about because the state of scientific and technical knowledge at the time was such that it could not have discovered it.

Ten years on, the directive has been implemented by all member states except France, which is being taken to the European Court by the Commission. But the optional provisions have been implemented unevenly across the EU.

Agricultural products are excluded from the scope of the law in all member states except Luxembourg and Sweden. The development risks defence is allowed in all member states except Luxembourg, but not for medicinal products in Germany or for medical and food products in Spain. And only Germany, Greece, Portugal and Spain impose a cap on damages.

Consumer organisations had been keen to persuade the Commission to address some of these anomalies and change the directive last year. This was especially so because, in 1990, the Commission had decided against conducting a five-yearly review, as not enough member states had incorporated the directive into national law at that stage.

In particular consumer groups wanted the Commission to withdraw two of the options, bringing unprocessed agricultural products within the directive's scope and, more controversially, abolishing the development risks defence. They argued there was no justification for such a defence. In its submission to the Commission, the UK's National Consumer Council said: "We believe that consumers should not have to bear without remedy injuries caused by unsafe goods which are put on the market by a manufacturer for commercial gain, whatever the possibility of discovering the defect."

Industry maintained that the defence was of paramount importance in encouraging the development and marketing of innovative products.

To resolve these differences and help it decide whether change was necessary, the Commission asked Mr Chris Hodges, a partner of McKenna & Co, the City of London solicitors, to carry out a study of the directive's application throughout the EU. Mr Hodges found that, while the directive is generally perceived as an important piece of legislation, there is little practical experience of applying it in the EU.

The directive is credited with increasing awareness of and emphasis on product safety: regulation on product safety has grown significantly in the EU since 1985.

It is also perceived as having made it easier for plaintiffs to prove their cases, as they no longer have to prove fault by the manufacturer. At the same time it has made it easier for manufacturers to settle without going through lengthy and costly litigation.

However, the study underlined that experience of the directive is still limited and only looks like developing slowly. At the time of the study in 1994, Mr Hodges discovered only three cases that had been litigated under the directive's strict liability principle – two German and one Italian. Furthermore, these cases were fairly minor.

One of the German cases involved the owner of an apartment who successfully sued the maker of Advent candles which emitted too many oily particles and damaged his flat. The second involved a householder who sued a paint manufacturer for damage to his carport when the paint was darker than indicated on the label. The Italian case involved a defective mountain bike.

There is evidence that several UK cases that would have been brought under the directive have settled before reaching court – among them, a case concerning water pollution in Camelford, Cornwall, and another brought by 28 people in north-west England who suffered botulism poisoning after eating hazelnut yoghurt.

In addition some cases that started out under the directive have been discontinued, such as the putative claim by 3,000 diabetics in the UK in relation to damage allegedly suffered by using human insulin. This was dropped when it became clear the scientific evidence was against them.

The reason there have been no multi-party claims – such as the Opren anti-arthritis drug cases of the 1980s – in the UK under the strict liability principle is because most of the products giving rise to these mass claims were supplied before the directive was implemented in the UK in 1988.

Another factor is that multi-party claims take a long time to get to court. It takes years to gather the complex factual and expert evidence. This "lead time" is only just beginning to expire even in those states such as the UK, Greece and Italy which implemented the directive on time seven years ago.

It was largely because of this lack of experience in using the directive, plus the fact that to date no national court has referred any question of interpretation of the directive to the European Court of Justice, that the Commission decided to leave it unchanged.

Industry can now look forward to at least another five years' protection from the development risks defence. But Mr Hodges warns against complacency.

In the UK, which has a history of multi-party actions – including those over pertussis vaccine, Opren, Benzodiazapines, IUDs, heart valves, silicone breast implants and smoking – he is predicting an explosion in product liability cases over the next few years.

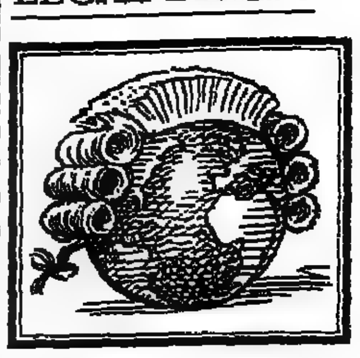
The key to multi-party actions is funding, he says. In the past these cases have relied heavily on legal aid to get off the ground, although industry lawyers, most noticeably in the Benzodiazapine cases, have successfully blocked legal aid by making submissions to the Legal Aid Board to the effect that the plaintiffs do not have a case.

Recently, however, the government has introduced legislation allowing lawyers to enter into "no win, no fee" arrangements with clients in personal injury cases, and this threatens to make legal aid largely superfluous in the product liability field.

"When you combine the advertising for clients by solicitors and the bandwagon effect which that creates with conditional fees, you're bound to get an explosion in product liability cases," Mr Hodges says.

With the European Commission looking at the question of funding cross-border access to justice in the EU, industry cannot afford to relax. His advice to manufacturers is to review product liability insurance and deductibles, check product safety management systems and get good lawyers.

LEGAL BRIEFS



Chicago-based firm expands with appointment

Jane Borrows, head of securitisation and structured finance at Simmons & Simmons, is to join the London office of the Chicago-based firm, Sidley & Austin.

The US firm has been building an English law practice in London for the past two years: Ms Borrows will bring the number of solicitors working at Sidley to 24. The firm's London office now has a total staff of 44 compared with four 18 months ago.

Ms Borrows is regarded as one of the leading lawyers in her field and was recently nominated by Legal Business magazine as one of 40 lawyers under 40 years of age expected to rise to the top of the profession.

Honours shared

City solicitors Slaughter and May and Clifford Chance have been voted joint top legal advisers of 1995 by Legal Business magazine for their roles in the Barings rescue and Glaxo's £9.1bn takeover of Wellcome.

The magazine's finance team of the year were Rupert Beaumont and Jonathan Rushworth of Slaughter and May, and Clifford Chance's corporate finance team led by Peter Brooks was voted corporate dealmaker of the year.

Other awards included Allen & Overy as property dealmaker of the year for the sale of Canary Wharf, and syndicated loan team of the year; Baker & McKenzie and Linklaters & Paines, joint project finance team of the year for the Gazprom pipeline; Ashurst Morris Crisp, management buy-out team of the year; Herbert Smith, equity issue team of the year for the sale of the National Grid; while individual performances of the year went to Peter Brooks of Clifford Chance for Glaxo/Wellcome and Philip Burroughs of Coudert Brothers for work on Samsung's investment in north-east England.

BUSINESSES FOR SALE

INTERNATIONAL PEOPLE

End of an era at Hang Seng Bank

Sir Quo-Wei Lee (left), one of the grand old men of Hong Kong banking, is stepping down as executive chairman of Hang Seng Bank, Hong Kong's second biggest locally incorporated bank. However, the 77-year-old banking veteran will continue to preside over board and shareholders' meetings at the bank he has chaired for 13 years, in his capacity as non-executive chairman from March 1.

His retirement marks the end of an era for a bank which, in an industry not known for its flamboyance, stands out as especially cautious and conservative. Starting out as a cable clerk, Sir Quo-Wei rose through the ranks at a time when Hong Kong's financial and banking infrastructure was struggling to meet the needs of an international market with limited resources and often jittery nerves that resulted in runs on the banks.

He was the driving force behind the deal to bring in the HSBC Group as controlling shareholder, a move credited with helping stabilise the banking sector in 1965. Since then, Hang Seng has gone from strength to strength, and today employs 7,900 staff in its 138 local branches and is expanding into China. *Louise Lucas*

Champagne supremo

LVMH, the French champagne and luxury goods group, has turned to Pernod-Ricard, a rival French drinks group, to find a new chief executive for its Moët & Chandon champagne business. Jean-Marie Laborde, 47, chief executive of Ricard since 1987, joins LVMH on February 1.

Laborde, who worked for Renault before joining Pernod-Ricard in 1979, succeeds Pierre Letzelter who has taken over as chief executive of Moët Hennessy, LVMH's wine and spirits operation. The post was previously held by LVMH chairman Bernard Arnault, who remains at the helm of the luxury goods group.

The changes are part of an effort to reinforce the structure of Moët Hennessy, which groups the Hennessy, Möet Chandon, Veuve Clicquot, Pommery, Hine, Mercier, Ruinart and other brands. Letzelter's task will be to define new business and organisational priorities while preserving the autonomy of each house and brand. Yves Bénard remains vice president, champagne, and will assist Letzelter in developing synergies among the group's champagne houses. Colin Campbell, currently vice president, sales of Hennessy, moves up to a similar role at Moët Hennessy.

Meanwhile, Georges Nectoux, chairman of Pernod-Ricard's Campbell Distillers, has replaced Laborde as head of Ricard. *William Hall*

Low key Prague lawyer

A change of style is on the way at the Prague office of the US law firm White & Case, where Jan Matejcek, 41, the new senior partner, promises to be a more low-key presence than Daniel Arbess, his high-profile predecessor.

For starters, he has eschewed the large office Arbess occupied in the firm's building on Old Town Square in favour of something more modest, a floor below. White & Case is also turning its attention from the largely complete Czech privatisation programme, to to financial advice and mergers & acquisitions.

Matejcek, who joined White & Case from Squire, Sanders & Dempsey early last year, comes from a family of lawyers. His father was a copyright lawyer, and his grandfather a judge in the Austro-Hungarian empire who witnessed the assassination of Archduke Franz Ferdinand in Sarajevo in 1914. *Vincent Boland*

Merck's marketing man

Donald Holdsworth has been appointed head of marketing at Merck, the largest US drugs company. His appointment as senior vice president of worldwide human health marketing ends what Merck describes as "an intensive search for a marketing executive from outside the industry".

Merck says that the pharmaceuticals industry has changed "dramatically" in recent years and that "a marketing executive from outside the industry could have a positive effect on the Merck culture."

Holdsworth, 41, moves from PepsiCo, where he was president of a UK-based venture involving Frito-Lay, a Pepsi food brand. *Daniel Green*

Japan fund manager

Ed Merner, 53, one of the best known foreign fund managers in Tokyo, is joining Atlantis Investment Management, a small investment boutique, after 22 years building up Schroders Investment Management's Japanese business.

Merner, a New Yorker by birth, is quitting because he wants to work in a smaller and more relaxed organisation with little red tape. "In the old days, the emphasis of fund management was on investing the money the best way possible. But it is now placed on collecting more and more money," he says. Merner, who ran the top performing Schroder Japanese Smaller Companies fund, is joining Peter Irving, 39, an ex-Schroders Korean fund manager who set up Atlantis in 1994. Tony Jordan, 37, former director of Schroder Investment Management in Hong Kong, is also joining the company. *Emiko Terazono*

Cummings' global role

Peter Cummings has been made chief commercial officer of ICO Global Communications, formerly Inmarsat P, one of the consortia racing to establish the world's first global hand held satellite phone service.

Cummings comes to ICO from Dun & Bradstreet Corporation, where he was managing director of Nielsen Solution System International. The company has also brought in Millie Banerjee from British Telecom as vice president for programme management. ICO intends to begin operations in 1999. *Alan Cane*

ON THE MOVE

■ Frank Reed has been named non-executive chairman of SPRINT CELLULAR and Dennis Foster the unit's president and chief executive, after its expected spinoff from Sprint later this year. Reed, 60, already sits on Sprint's board, while Foster, 55, has been president and chief operating officer of Sprint Cellular since March 1993.

■ Norsk Hydro has named Eivind Reiten president of HYDRO ALUMINIUM, Europe's leading aluminium metal producer. Reiten, currently president of Hydro's refining and marketing division, succeeds Dag Flaa who retires on May 1. Thorleif Enger, head of Hydro's exploration and production division, joins the corporate management with responsibility for oil and gas activities, and is succeeded by Tore Torvund, head of exploration and production in Bergen. John Ottestad, head of the magnesium division, becomes divisional president of refining and marketing.

■ G.G. Vaidya, previously chief general manager, succeeds T.R. Venkatachalam as managing director of the DISCOUNT & FINANCE HOUSE OF INDIA, a Reserve Bank of India subsidiary.

■ Li Ka-shing and Tung Chee-hwa have been appointed as honorary senior advisors to the CHINA OCEAN SHIPPING CO (Cosco). Li heads the Hutchison Whampoa group, and Tung is chairman of the Orient Overseas Container Line. Other foreign advisors to Cosco include Britain's former prime minister, Edward Heath, and former US secretary of state, General Alexander Haig.

■ René Brillet, executive director of Carrefour France since 1985, rises to managing director of CARREFOUR EUROPE. Philippe Jarry succeeds him at Carrefour France.

■ Patrick Peugeot has been appointed chairman of insurer LA MONDIALE, succeeding Pierre Guillem, who becomes group honorary chairman.

■ Donald Peterson, 46, is to be chief financial officer of the new systems and technology company formed when AT&T is split into three separate companies. He has been chief financial officer of AT&T's communications services group since September 1995 and previously spent 19 years with Northern Telecom.

■ Larry Yung, chairman of CITIC Pacific, has resigned as a director of HONGKONG TELECOM. He will be replaced by Vernon Moore, deputy managing director and chief financial officer of CITIC Pacific.

■ Hans-Juergen Beger has been appointed a full board member of SANDOZ, with responsibility for administration.

■ Wilhelm Krull becomes general secretary of the VOLKSWAGEN FOUNDATION, succeeding Rolf Moeller who is retiring.

■ Bernard Duregne has been appointed chairman of POLYCOM, the joint subsidiary of AFP and France Cables et Radio. Daniel Nabet of France Telecom becomes managing director.

■ Dieter Nonhoff is the new management board chairman of the HAMBURG-MANNHEIMER life assurance firm in Hamburg.

■ Wolfgang Meincke, 45, has been named managing director at the new firm BERTELSMANN-SPRINGER GESUNDHEITSGESELLSCHAFT.

■ Friedrich Pohl, 50, joins the management board of PAUL HARTMANN.

■ Hans-Joerg Kern, a director of NORDFINANZ BANK OF BREMEN, becomes board chairman.

■ Ulrich Moessner has been appointed commercial managing director at BAYERNGAS.

■ Hans-Peter Ilgner, 48, joins the executive board of UHDE, where he will be in charge of the commercial divisions. He succeeds Klaus Sturany, who joins the managing board of the holding company GEA.

■ Tom Conaghan succeeds Richard Barlow as president of T&N's BENTLEY-HARRIS subsidiaries in the USA, France, Germany, and the UK. Ron Quell becomes president of Bentley-Harris Inc, of Exton, Pennsylvania, and Ian Edmondson, currently based at T&N's Composites & Camshafts Group in the UK, is named general manager of Bentley-Harris's European operations, from February 1.

■ Terrence Checki, 50, rises to executive vice president and head of a new emerging markets and international affairs group at FEDERAL RESERVE BANK OF NEW YORK.

■ Gary Crittenden, 42, takes the new title of executive vice president – strategy and business development at SEARS, ROEBUCK, from February 15. He joins from Melville Corporation, where he was chief financial officer.

■ Ton Beekmans has joined INTERNATIONAL ASSETS ADVISORY CORP, an independent Dutch securities and money management firm. Beekmans, who will be in charge of the foreign exchange and interest rate department, was formerly head of investment and funding for ING Bank in Amsterdam.

■ Wolfgang Gritz, joint managing director of Intercontainer-Interfrigo, Basel, is the new chairman of POLCONT SPOLKA, Warsaw, a joint venture in which ICF holds 50 per cent. He succeeds Jan Tymoszuk, director of the Polish Railways, who becomes vice-chairman.

■ Peter Kostka, 63, who has headed the French subsidiary of Mercedes-Benz for 18 years, becomes DAIMLER-BENZ GROUP representative in Paris from March 1. He succeeds Juergen Sudhoff.

■ Paul Jacobson becomes managing director and head of North American fixed income trading at DEUTSCHE MORGAN GRENFELL, expanding the role previously filled by Mead Briggs. Jacobson was a partner and co-head of liquid capital markets at Goldman Sachs until 1993, when he left to form Jacobson Capital Partners.

■ William Wilson, formerly BP's manager of gas marketing and trading in Houston, joins UNOCAL, the 12th largest US-based oil company, in the new post of vice president of commodity trading and risk management.

■ Rolf Classon has taken over management of BAYER's diagnostics division in Tarrytown, USA, replacing Hans Lauterbach who has retired.

■ Rayne de Gruchy, executive director of Queensland's crown law office, becomes executive director of the Australian FINANCIAL INSTITUTIONS COMMISSION. She replaces David Knott, who left in November to head CFM, the federal government's superannuation funds manager.

■ Clyde Beahm rises from group vice president, franchise operations and president of Jiffy Lube International, to group vice president, products marketing, at PENNZOIL. He replaces William Welcher, who is retiring after 46 years with the company. James Wheat becomes interim president of Jiffy Lube International.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

BUSINESSES FOR SALE

The cooling energy of lasers

Tom Mead looks at the potential of optical refrigeration

Most of us think of a laser beam as a searing stab of light so hot that it can slice through most objects in a split second. But, in an illustration of the maxim that most tools and power can be turned or tuned to more than one purpose, that image of lasers may soon include the idea of laser beams being used to cool objects.

Scientists at the Los Alamos National Laboratory in New Mexico have demonstrated that, under the right conditions, "optical refrigeration" is possible. While it has been theorised since the 1920s that bright light could be used to chill solids, advances in materials and techniques were required before it could evolve from theory to reality.

Light hitting a solid object usually deposits energy as heat. Just touch the metal lampshade on the nearest incandescent lamp. But what has been learned at Los Alamos is that under some well-defined and controlled circumstances, a "tuned" laser light can absorb energy from microscopic thermal vibrations in a solid, and radiate that energy out and away from the solid, producing a drop in the object's temperature.

If an object excited by radiation at one frequency can be made to emit radiation (heat) at higher frequencies carrying more energy, the object has a net loss of energy. The result is that the object cools.

Scientists have thought that by pumping a fluorescent cooling element with a high-efficiency diode laser, it should be possible to construct a compact, all solid-state optical cryocooler; this would enable widespread deployment of cryogenic electronics and detectors in space and elsewhere.

To create laser cooling, the scientists shone a beam of infra-red light nearly as intense as the light at the sun's surface, on to a ¼-in sliver of ultra-pure glass that had been doped, or impregnated, with ions of the element ytterbium.

When excited by the laser beam's pulse of energy, ytterbium vibrates at much higher frequencies than ultra-pure glass. Consequently, the ytterbium ions radiate away more energy than is being absorbed by the glass, and the glass/ytterbium composite as a whole becomes cooler.

"You can think of the principle here as something like cooling an object by 'washing' it with 'cool' light," explains Richard Epstein, who heads the Los Alamos research team. "Light pours on to the object, soaks up some of the vibrational or heat energy of the object, then carries away the excess energy."

It is not a very efficient process. The cooling power is only a small percentage of the absorbed laser power. Thus, while it is far too inefficient to refrigerate food or cool a house, it will do very nicely for cooling high-tech devices to extremely low temperatures.

It is thought that this will lead eventually to the ability to cool objects down to about 200°C below zero. Absolute zero, at which all motion ceases, is -273°C.

In the harsh environment of space, the technology would function for years

What are the potential applications? In the harsh environment of space, the solid-state, vibrationless technology would be robust enough to survive and function for years while being used in satellites to cool infra-red cameras, infra-red detectors, or superconducting relays for cellular phone calls.

At home it could be used to enable superconducting circuits to operate tens or hundreds of times faster than the conventional electronics of today. Think of it as putting a supercomputer in your kitchen, next to one of those old-fashioned non-laser refrigerators.

The Los Alamos team has patented the optical refrigeration technology and is seeking industrial partners while it continues to improve the system. The first practical device may appear in three years.

Setting the pace

Tom Foremski asks if Intel is producing more powerful hardware than the market requires

As Intel commits billions of dollars to produce new families of powerful microprocessors, it faces a fundamental challenge: is the company jumping ahead of the computer industry and its market by developing microprocessors more powerful than the market requires?

More than $7bn (£4.5bn) has already been committed by Intel to building chip plants capable of making 140m microprocessors a year by the end of the decade. And to make this investment pay off, Intel must ensure there will be demand for its chips.

To a small extent, Intel has already outpaced the market with its latest Pentium Pro microprocessor. Intel originally expected that Microsoft Windows 95 would be based largely on 32-bit software. Instead, the latest Microsoft operating system contains a large amount of 16-bit software and the Pentium Pro offers little performance advantage over the older Pentium microprocessor when running Windows 95 applications. Intel misjudged when users would be running 32-bit applications.

Work has already begun on a next generation microprocessor that will power a future generation of PCs early in the next decade. This future microprocessor will offer supercomputing speeds, with a performance at least 30 times that of current Pentium microprocessors.

While current business software has driven the development of microprocessors, word processors and financial spreadsheets are already fast. Incremental speed increases are, however, unlikely to create a demand for faster microprocessors.

Steve McGeady, Intel vice-president and general manager of Internet Technology Labs, blames the software market for failing to keep pace with microprocessors. "I don't think it's the case that there won't be applications that would demand that kind of processing power. Rather, it could be the case that the industry simply fails to produce those applications quickly enough."

McGeady and his team of researchers are responsible for creating and investigating technologies that will help drive demand for Intel microprocessors. The company is already one of the largest private investors in software firms developing key applications. However, McGeady argues that those applications must be ones that users will want.

"There is no way we can force PCs down people's throats if they don't want them, if there is nothing useful to do with them." Intel believes, in particular, that the Internet and its related communications technologies are the key to the company's quest for power-hungry applications.

"The Internet represents the most important class of applications, 90 per cent of which have yet to be invented," says McGeady.

Intel has even begun calling the future PC architecture the "Internet PC" and is designing future microprocessors with features that will support those yet-to-be-created Internet applications.

But how is Intel to know what those Internet applications will be? This is the work of Internet Technology Labs which is developing prototype technologies.

One important area at the lab is to improve the multimedia capabilities of PCs in connection with high-speed communications. This includes developing the technology to enable full motion digital video and CD-quality digital audio transmissions over normal telephone lines and high-resolution 3D graphics.

Intel's ProShare desktop videoconferencing product is an example of creating a useful but processor-hungry application. But is it in the best interests of the computer user that they have to upgrade their systems continually to run the latest applications?

"Intel quite clearly has a vested interest in fanning the flames of customer demand. Intel needs to make sure that we will continue upgrading our computers," says Jim Turley, senior editor of the Microprocessor Report newsletter. "Is this a service to computer users? That's probably a philosophical argument. No one is forced to upgrade yet we all look longingly at the latest PC models."

Mike Griffith, industry analyst at market research firm In-Stat, points out: "There is always a performance gap between the hardware and the software applications. And it is always led by the hardware." He adds that "Intel is trying to narrow that gap".

Intel is also working on ways of combining Internet web browsers with digital TV broadcasts. Users could view a TV programme within a window on their PCs while at the same time communicating with other users connected to the same web site, enhancing what McGeady refers to as the important social aspects of the Internet.

Another focus of research involves a type of powerful peer-to-peer networking technology that does away with the current client/server computing model in which PCs (clients) are connected to a larger, central computer (server).

"The hub and spoke client/server model of computing is inherently unscalable," explains McGeady. "As we move from hundreds of people on local area networks to tens of thousands, congestion points begin to arise. Those servers ultimately become the bottleneck in the system. Essentially, any large network of a few hundred PCs is much more powerful than any server – if you can co-ordinate and distribute the task across them."

Information processing is another Internet-related technology that demands a lot of computing power. The vast amount of information available on the Internet is expected to grow exponentially over the next few years, making the task of finding useful information the equivalent of finding a needle in a thousand haystacks.

While Intel is pioneering the development of new types of applications, it says it is not interested in creating new businesses. Instead, it will either give away or license these technologies to others. "Our number one job at Intel is to sell more microprocessors," points out McGeady.

McGeady also believes that despite some concerns about the unorganised aspects of the Internet, it should not be regulated by governments or by industry. He believes that trying to control the Internet may interfere with the spontaneous creation of new types of Internet applications and services that will help drive the need for ever more powerful computers.

According to McGeady: "Multimedia and CD-Roms sold Pentiums. The Internet will sell the next generation of processors."

EU grant guide

Floods, earthquakes, volcanic eruptions, the ozone hole and global warming are among the issues addressed in the first wave of grants recently approved under the European Union's Environment and Climate programme – part of the Fourth Framework programme for R&D.

The 315 environmental projects, involving 2,000 academic and industrial participants, will receive Ecu217m (£170m) worth of EU funding. They were selected from 1,600 proposals with 9,000 participants.

Although the overall success rate of environmental grant applications was only 19 per cent, the European Commission says that 77 per cent of proposals rated "A" by independent expert assessors were successful. Areas covered include:

- Earthquakes. Projects range from earthquake prediction to safer designs for steel buildings. Earthquakes kill an average of 20,000 people a year worldwide.
- Floods – from forecasting flash floods to mitigating their after-effects. Disastrous flooding in Europe last winter has given the research new urgency.
- Volcanoes. Projects concentrate on modelling and monitoring volcanic activity. Southern Europe is still vulnerable to catastrophic eruption.
- Climatic change. For example, the Epica project will drill and analyse a 3.5km ice core in Antarctica, to gather more information about shifts in climate over the past 500,000 years.
- Ozone depletion. Projects will measure any increase in damaging ultraviolet radiation across Europe, as man-made chemicals destroy the protective ozone layer in the upper atmosphere.

After this first round of grants, the Environment and Climate programme still has Ecu315m to distribute up to 1998. The table below – updated every three months in the FT – is a guide for companies and universities interested in applying for research grants in any of the 17 specific Framework programmes.

Clive Cookson

EUROPEAN UNION RESEARCH AND TECHNOLOGY GRANTS

	Date/OJ Reference	Due date	Value Ecu m	DG	Contact fax
Information Technology (ESPRIT) Software; components & sub-systems; multimedia; high-performance computing; business process technologies; manufacturing integration	15.12.94/C357 15.3.95/C84 15.6.95/C148 15.12.95/C337	15.5.96 (part) 15.2.96 (part) 15.5.96 (part) 20.3.96	1911	III	Mrs Gerda Colling +32-2-296.83.88
Telematics Applications Administration; transport; urban & rural areas; education & training; healthcare; environment; language engineering.	15.9.95/C240	15.6.96	843	XIII	+352-4301.340.79 & +32-2-295.23.54
Advanced Communications Technologies & Services (ACTS) Interactive digital multimedia; photonics; high-speed networking; mobility & personal communications networks; network intelligence.	15.9.95/C240	1.3.96	630	XIII	ACTS Central Office +32-2-295.06.54
Industrial & Materials Technologies (BRITE-EURAM) Production technologies; materials & technologies for product innovation; technologies for transport.	15.12.94/C357 15.12.95/C337	16.12.96-17.12.97 17.4.96	1617	XII	Help line +32-2-295.80.46
Standards Measurements and Testing (SMT) Measurements for Quality European Products; standards & technical support; measurements related to needs of society.	15.12.94/C357 15.6.95/C148 15.12.95/C337	15.3.95-17.12.97 15.11.95-15.11.97 15.3.96	175	XII	Mr David Gould +32-2-295.80.72
Environment and Climate Environmental quality & global change; environmental technology; space techniques for environmental monitoring & research; sustainable development	15.1.95/C12 & 15.6.95/C148 15.12.95/C337	15.6.96 & 27.3.97 (SMEs) 20.3.96 & 20.8.96	532	XII	Space technology +32-2-296.05.88 Other areas +32-2-296.30.24
Marine Science and Technology (MAST III) Marine science; strategic marine research; marine technology.	15.12.94/C357 15.12.95/C337 15.3.96	11.6.97 & 17.12.97 3.96 - 6.96	228	XII	Mr Jean Boissonnas +32-2-296.30.24
Biotechnology Cell factories; genome analysis; cell communications in neurosciences; immunology and vaccines; structural biology; biodiversity; social acceptance.	15.9.95/C240 15.12.95/C337 15.6.96	10.1.96 3.96 - 7.96 (training)	552	XII	Mr Alfredo Aguilar +32-2-295.53.65
Biomedicine and Health Pharmaceuticals; biomedical technology & engineering; brain research; human genome research; public health; biomedical ethics.	17.1.95/C12 15.3.96	31.3.96-31.12.97 (fellowships) 17.6.96	336	XII	Mr Alain Vanvossel +32-2-295.53.65
Agriculture and Fisheries (FAIR) Integrated production & processing chains; nutritious foods; agriculture, forestry & rural development; fisheries & aquaculture.	15.12.94/C357 15.12.95/C337	12.6.96 & 11.6.97 (SMEs) 1996/7 (fellowships)	607	XII	Mr Xabier Goenaga +32-2-296.43.22
Non-nuclear energy (JOULE-THERMIE) Strategy; rational energy use; renewable sources; fossil fuels; energy technology dissemination.	15.12.94/C357 15.9.95/C240 15.12.95/C337 15.1.96	17.12.97(demo) 1.2.96 15.3.96 (OPET & RUE)	967	XII XVII	Mr Michel Poireau (R&D) +32-2-296.68.82 Mr Wiepke Folkertsma (Demonstration) +32-2-295.05.77
Nuclear fission safety Innovative approaches; reactor safety & severe accidents; radioactive waste management, disposal & decommissioning; impact on man & environment.	17.1.95/C12 15.12.95/C337	28.2.96 & 1.11.97 modifies previous call	160	XII	Radiation protection +32-2-296.62.56 All other areas +32-2-295.49.91
Transport Strategy; rail; integrated transport chains; air; urban; water-borne; road.	15.12.95/C337	15.3.96	240	VII	Mr Egidio Leonardi +32-2-296.83.50
Targeted Socio-Economic Research (TSER) Evaluation of science & technology policy options; education & training; social integration & exclusion.	No open calls 15.6.96		105	XII	TSER Central Office +32-2-296.21.37
International Cooperation (INCO) Central & Eastern Europe; other industrialised countries; developing countries.	15.2.95/C38 17.10.95/C271	grants 3.96 - 3.98 1.2.96	540	XII	Developing countries +32-2-296.62.52 Central/Eastern Europe +32-2-296.33.08
Dissemination & application of results (INNOVATION) Technology validation; technology transfer.	15.9.95/C240 15.12.95/C337	15.12.95 15.3.96 & 13.9.96	283	XIII	Mr Robin Miège +352-4301.34544 Mr Jean-Noël Durvy +352-4301.34129
Training & Mobility of Researchers (TMR) Research networks; access to large-scale facilities; training through research; conferences & summer schools.	15.12.95/C337 15.3.96	7.4.96 15.6.96	744	XII	Mr Dreux de Nettancourt +32-2-295.69.95

The table above shows the status of all 17 programmes that distribute R&D grants within the EU Fourth Framework Programme. The name of each programme (and acronym, if any) is on the left in bold type, with a brief list of its main research areas beneath.

The next column gives the date(s) on which the EU Official Journal has published a "call for proposals" for the programme, with the reference number of the journal. Dates (without a reference number) show when the future calls are scheduled.

The "due date" column gives the main deadline for submitting project proposals. Some calls have different due dates for different activities. The total budget of the programme over five years is given in millions of Ecu, followed by the number of the directorate-general responsible for it.

Finally, there is a contact name (where available) and fax number in Brussels or Luxembourg. For further information look for DG XII's pages on the EC's Europa web site at http://www.cec.lu/en/comm.html.

With every fresh look at his work, his life and his career, Christopher Wood remains the great "might-have-been" of Modern British Art. Dead before he was 30 in ambiguous circumstances, personable and charming, ambivalent in his sexuality, a familiar and welcome character among the ever-shifting *dramatis personae* of avant-garde Paris and London in the later 1920s, he satisfies every requirement as a martyr of modernism.

Did he jump or just slip beneath the wheels as the train pulled into Salisbury station that August afternoon in 1930? We still can only guess. We do know that he was genuinely mourned by a wide circle of friends, from Jean Cocteau to Augustus John.

All artists are opportunists and Wood was fortunate in his artistic friendships. He knew Picasso, Braque and Cocteau, and the influence particularly of the two last is clear enough – the disrupted pictorial space of Braque's post-cubist still-lifes, the clean certain contour of Cocteau's drawings. Of even more direct importance was his working friendship with Ben Nicholson, and the chance they shared in discovering the old fisherman, Alfred Wallis, in 1928, painting away on his doorstep at Saint Ives.

The question remains as to the exact balance of their mutual creative give-and-take. Nicholson, the longer-lived and the cooler temperament, was never one openly to advertise any such debt. But Paul Nash, who hardly knew him, writing of Wood's Memorial Exhibition in 1932, hints strongly at what I suspect to be the truth when he speaks of "the vitality of his expression, the gay easy swing of his manipulation of paint, free, but never showy or slick..."

For, of the two of them in those last few years of the 1920s, it was Wood who was the freer and braver painter, the more truly original and true to himself; Nicholson the more knowing, careful and judicious. By 1930, in any case, their paths had diverged. Nicholson was running with other hounds, Moore and Hepworth, and chasing the fresh fox of a refined and minimal abstraction. Wood by then was inclining rather more towards surrealism and incipient neo-romanticism, through which his own influence on British art would remain strong – Cedric Morris, Carel Weight, John Minton and the young Lucian Freud.

And at that moment at the turn of the decade, Woods's was the more substantial achievement. Even in a show as small and choice as that now at Parkin, we see, in the few late paintings and the many drawings, just what Nash meant by the easy swing and freedom of the work.

A painting of a window has a pipe on the sill, with the sea beyond and a tramp-steamer chugging by, the smoke taken by the wind. It has all the narrative simplicity of Wallis but none of the naivety, and all the quirky certainty of Nicholson in the composition, and his visual refinement too, but nothing of his self-consciousness and "see here". It is shot through with vigour and good humour. Such is indeed the character of the work, of the large fishing-boat that rides at anchor in Dieppe Harbour, the simple bowl of fruit, the two fresh-faced sailor boys. More than an artist, he is always a painter.

'Two French Boys', 1925 by Christopher Wood, the great might-have-been of Modern British Art

Martyr of modernism

William Packer discusses the genius of Christopher Wood

The drawings, and the life drawings in particular, are full of interest, if for nothing more than the light they shed on Wood's natural inclinations. Not all are very good, many of them early and tentative, but as he grows in confidence, so they grow in quality. A great many evince a clear if tacit physical interest that is quite as likely to be hetero as homosexual. One or two could only have been drawn by a man most drawn to women. Anthony Powell – quoted by Richard Ingleby in his useful recent biography (Allison & Busby, £25) – offers what should be the last word on the subject. "He was the only British artist found acceptable in the Paris Monde of Picasso and Cocteau, a convenient bisexuality being no handicap in that particular sphere."

Finally, two shows I can only recommend rather than review. At Duncan Campbell, the drawings and water-colours of Rowland Hilder celebrate an artist whose work is as widely familiar as it is critically under-rated. Hilder is one of those many artists we penalise for their commercial success as illustrators – the art-world's equivalent of "being in trade". The freshness and clarity of his working studies and sketch-book material, are a revelation.

At Cadogan Contemporary, the work of the six finalists for this year's Alisdair Gilchrist Fisher Memorial Award, open to an artist under 30, is on show for the rest of this week. The prize of £3500 has gone to Andrew Cranston, a painter from Aberdeen now in his last year at the Royal College. Since I was one of the judges, I can do no more than ask you to see if you agree or not with our decision.

Christopher Wood 1901-1930 – paintings and drawings: Michael Parkin Gallery, 11 Motcomb Street SW1, until February 2. Rowland Hilder 1905-1993 – drawings and watercolours from the Artist's Studio: Duncan Campbell, 15 Thackeray Street, Kensington Square W8, through February. The Alisdair Gilchrist Fisher Memorial Award 1996: Cadogan Contemporary, 198 Draycott Avenue SW3, until January 20.

London International Mime Festival

Sprouting heads in 'Twin Houses'

With a circus ensconced at the Royal Albert Hall and the two-week London International Mime Festival just underway, those theatre-goers who prefer the verbals to the visuals might be feeling there is nowhere to hide.

But as anyone who has dipped a toe into the Mime Festival in recent years will testify, it is not as bad as all that. You will find very little in the way of whey-faced, dumbstruck figures walking against the wind or feeling their way around invisible glass boxes.

"Mime" these days covers a multitude of things – all the styles that fall under those vague headings of "visual theatre", "physical theatre" or "performance art". Generally, some shows at the festival are sombre, some are funny and some are downright noisy. And usually the festival encompasses all the extremes that "mime" allows, from shows that are physically eloquent and intensely moving to those that are skilful but enervating – that entertain the eye but leave the brain to fidget.

This year, productions hail from France, Sweden, Germany and Belgium, as well as the UK, and range, promisingly, from genial cabaret to a dark study of fascism.

The festival opened at the Purcell Room with *Twin Houses* from Belgium, an eerie piece for one human performer and several mannequins. To a growling, menacing soundtrack, a solo actress, Nicole Mossoux, goes about ordinary tasks – reading, writing – only slightly impeded by the extra heads that seem to sprout from her shoulders like mushrooms from a damp tree-stump.

These inscrutable beings, all of whom would benefit from a good haircut and a week in the sun, begin by merely being curious, interfering with her writing like skittish cats.

But, as all ventriloquists know, such companions rarely remain under control, and our performer soon discovers that two heads are not necessarily better than one. Most of her visitors turn malevolent and a power-struggle ensues between human and mannequin, during which it is not always clear who is manipulating and who is being manipulated.

Mossoux is very skilful, dislocating the several parts of her body until she looks less real than the mannequins (at one point she cuts off her own head and carries it away), and the show is at its best when she uses her ability wittily. There is a wonderful three-legged dance at one point, where, with a little help from one of her strange companions, she swoops long legs in graceful, anatomically improbable arcs.

During another scene she dallies with a balding suitor, then retreats into his cloak, leaving him to stride about the stage, a comically etiolated figure, in peeved frustration. Otherwise her relationships with these curious alter-egos is more disappointing, rarely extending beyond menace, confrontation and physical struggle. She could afford to explore her character's symbiotic relationship with these aliens down more interesting routes.

But the show does have its own beguiling power, as Mossoux establishes a strange world that has the fascination of a nightmare, a fairy tale or a ghost story. And she herself, with her elfin looks, is a most arresting performer.

Most telling is the moment at the end of the show when she is finally left on her own, and looking somehow bereft, gingerly examines her own body as if it might turn upon her at any moment.

Sarah Hemming

The London International Mime Festival continues until Jan 28 at venues throughout the capital (0171-637 5661). Selected highlights will be reviewed.

Opera/**Richard Fairman**

Hansel and Gretel

At the end of the evening the orchestra won a warm round of applause and a few cheers. The threat to do away with Scottish Opera's orchestra still lurks in the background and the company must be pleased to know that it has a few bravehearts in the audience ready to offer solidarity.

It helped that the first new production of the year provided some marvellous music to play. Humperdinck's *Hansel and Gretel* is a fairy-tale opera for adults, especially those who like Wagner but think four hours in a theatre is too much. Each time one hears it, more echoes of Wagner are revealed, from the *Parsifal*-like music as the children enter the forest to the sense of impending doom (taken from Act 2 of *Die Walküre*) as they realise they have lost their way.

A few years ago Scottish Opera's *Ring* cycle petered out through lack of money, but the orchestra has not forgotten how to make a warm Wagnerian sound. The playing was both well-blended and alive with detail, while the conductor, Guido Ajmone-Marsan, made sure that the singers could always be heard – in sum, a performance that put the orchestra's case for survival with some musical eloquence.

Just as Humperdinck's score borrows heavily from Wagner, so it is possible to read a lot of Wagnerian symbolism into his treatment of the fairy-tale. Producers have to tread carefully through this dense forest of allusions. A note in the programme managed to find the number seven lurking around every corner and Mark Tinkler's production offered its own selection of symbols that failed to add up.

Fortunately, it was also adult enough to realise that the opera needs a child's sense of fantasy. Richard Aylwin's designs turned the forest into a subtle blend of autumnal colours, which managed to look increasingly magical each time the lighting changed. The gingerbread house was shown as a giant egg (no, don't ask) and, as the opera went on, eggs became ever more important, some of them popping up through the floor from which the enchanted children hatched at the end.

In Tinkler's most successful scene the Witch produced eggs from her pocket and even from her mouth, throwing them into the air to produce showers of silver. Elizabeth Vaughan cast the Witch's spell with splendidly evil verve, although they would probably rather she had not smashed part of the set in her enthusiasm. Experience tells in a role like this and Vaughan could hardly be bettered, rolling the words around in her mouth with lip-smacking relish.

It was a good cast overall. Claire Bradshaw and Catriona Smith sang delightfully as Hansel and Gretel, Smith's soprano sounding particularly well-produced. Anne Mason and Russell Smythe managed to give Mother and Father each some character, though she looked too young and his flexible baritone still sounds very youthful. Lisa Milne's bright Dew Fairy and Ann Archibald's Sandman seem to be well-meaning aunties, who joined the family group to guard the children in place of the usual angels.

Like much else in this production, that was a strange idea that failed to be followed through – but not unappealing. Scottish Opera's audiences should find this *Hansel and Gretel* a pleasing substitute for Wagner, so long as the company is unable to afford the real thing.

Sponsored by KPMG. Performances at the Theatre Royal, Glasgow, until February 10, then on tour.

Concerts/**Adrian Jack**

Park Lane Group

Each year in January the Park Lane Group puts on a week of concerts (two each night) in which instrumentalists under 28 and singers under 30 perform 20th-century music at the Purcell Room on London's South Bank. This year St John's, Smith Square was also used for some organ recitals.

Ensembles play an important part, too, and on the opening night we heard two: the Nossek String Quartet and the saxophone quartet, Saxploitation. The Nossek's programme was dominated by Piers Hellawell's *Still Dancers*, a frieze-like collection of three movements which Hellawell asked to be played in alternation with other composers' pieces. With their static, block-like structure and absence of harmonic movement, they seemed too long, though there were striking effects, above all in the last movement, where each player had a distinctive part of her own and the viola took the foreground.

The Nossek Quartet also played the sturdy, combative little Quartet No. 3 by Anthony Gilbert, who was the featured composer of this year's series. Based on Guillaume de Machaut's *Hoquetus David*, which eventually emerged in something like its original form from a wrestling match of distorted fragments, the Nossek players made a strong impression.

Saxploitation had more obvious fun with Gilbert's *Six of the Bestiary* – a neat collection of six pieces, quite original in invention and just the right length for what happened in them. Richard Rodney Bennett's recent Saxophone Quartet showed off the group's confident ensemble and rhythmic punch in a more predictable, jazzy idiom.

Sunday's only soloist was the marimba-player Colin Boyle, who in two long pieces by Piers Hellawell and Jacob Druckman showed exact control of the finest dynamic shadings in tremolos which snaked over the huge instrument to conceal its essentially percussive nature.

On Monday evening there were two solo pianists. Eun-E Goh was born in Seoul and she included the first and fifth of Ligeti's *Etudes* in her programme as well as a relentlessly lively piece by Javier Alvarez. It pitted the piano against a tape of synthesised and sampled sounds suggesting all sorts of metallic objects agitating the strings of the piano; it was yet another piece that was far too long. Most of Eun-E Goh's 60-minute programme was almost equally demanding and she sustained it tirelessly.

Rachel Beckles Willson has studied in Hungary with György Kurtág, whose early *Splinters* she followed with a selection from his witty, diary-like *Games*. She played all these, as well as Elliott Carter's early Sonata, from memory, confidently as well as sensitively. Carter's Dalcrozian piece aptly followed Copland's fresh-faced Duo for flute and piano, performed decisively by Siobhan Grealy and Karen Suter. They also chose a new piece by David Warburton, called *Begin afresh, afresh, afresh* – the title is a quotation from Philip Larkin and the music turned out to be serious, conscientiously worked, but slightly academic: you could see why the composer won lots of prizes.

On balance, Anthony Gilbert won his laurels as featured composer, and *The Incredible Flute Music*, quite an old work, showed once more his superior instinct for how much to say and how long.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITION
Van Gogh Museum
Tel: 31-20-5705200
● Franz von Stuck (1863-1928): Eros & Pathos: retrospective exhibition of work by the German artist. The display includes 50 paintings, 15 sculptures, and pieces of furniture; to Jan 21

■ BONN

DANCE
Oper der Stadt Bonn
Tel: 49-228-7281
● Ein Sommernachtstraum: a choreography by Youri Vàmos to music by Mendelssohn, performed by the Ballett Bonn. Shuja Okatsu conducts the Orchester der Beethovenhalle Bonn; 8pm; Jan 17, 19 (7pm), 21

■ DUBLIN

EXHIBITION
Irish Museum of Modern Art
Tel 353-1-6718666
● Bernd and Hilla Becher: exhibition of recent work by the German artists Bernd and Hilla Becher. The Bechers are known for their photographs of 20th century industrial forms in Europe and North-America. This exhibition includes work on the theme of industrial facades, alongside many other types; to Jan 28

■ INDIANAPOLIS

CONCERT
Warren Performing Arts Center
Tel: 1-317-898-8061
● Indianapolis Symphony Orchestra: with conductor Raymond Leppard, pianist Barry Douglas and baritone Nathan Berg perform Mozart's "Piano Concerto No.13", "Du bist die Ruh" by Schubert/Reger, "Erlkönig" by Schubert/Liszt, and the first movement of Schubert's "Symphony No.7"; 8pm; Jan 18 (7.30pm), 19, 20

■ LEIPZIG

OPERA & OPERETTA
Oper Leipzig Tel: 49-341-1261261
● Die Fledermaus: by J. Strauss. Conducted by Sieghart and performed by the Oper Leipzig and the Gewandhausorchester; 7.30pm; Jan 19

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6388891
● BBC Symphony Orchestra: with conductor Andrew Davis, the BBC Symphony Brass and the BBC Symphony Chorus perform works by Ives; 7.30pm; Jan 19
● BBC Symphony Orchestra: with conductor Andrew Davis, the Duke Quartet and the BBC Singers perform Ives' "Celestial Country", "2nd Orchestral Set", "Symphony No.3" and "Central Park in the Dark"; 8pm; Jan 20
Wigmore Hall Tel: 44-171-9352141
● Richard Boothby, Susanna Pell and Shalev Ad-El: the viola da gamba-players and the harpsichord-player perform works by J.S. Bach and Marais; 7.30pm; Jan 17
EXHIBITION
The Hayward Gallery
Tel: 44-171-9604242
● Art and Power. Europe Under the Dictators 1930-1945: this exhibition examines the relationship between art and politics in Europe in the thirties and forties, when culture became an arena for the struggle between communism and fascism. In the years leading to the Second World War, artists and architects, especially those living in Italy, Germany and the Soviet Union, faced stark choices in their response to authority. The exhibition, devised around the cities Paris, Rome, Moscow and Berlin, includes art made in service of the state as well as in exile and opposition; to Jan 21
THEATRE
Lyttelton Theatre
Tel: 44-171-9210631
● Rosencrantz and Guildenstern are Dead: by Tom Stoppard. Directed by Matthew Francis, starring Simon Russell Beale as Guildenstern; 7.30pm, Sat, Wed also 2.15pm; from Jan 18 to Jan 24 (not Sun)

■ LOS ANGELES

EXHIBITION
Norton Simon Museum of Art
Tel: 1-818-449-6840
● Cherished vistas and famour places: Hiroshige and the Japanese Landscape: an exhibition of 75 woordblock prints by the Japanese artist Ando Hiroshige (1797 - 1858). Hiroshige is best known for his many landscape series celebrating the beauty of nineteenth century Japan. His series "Fifty-Three Stations of the Tokaido" forms the basis for this exhibition; from Jan 18 to Jul 21

■ LUXEMBOURG

CONCERT
Théâtre Municipal Tel: 352-470895
● Orchestre Philharmonique du Luxembourg: with conductor Leopold Hager and organist Martin Folz perform works by Tchaikovsky, Wimberger and Brahms; 8pm; Jan 18, 19

■ MUNICH

OPERA & OPERETTA
Nationaltheater
Tel: 49-89-21851920
● La Damnation de Faust: by Berlioz. Conducted by Marc Albrecht and performed by the Bayerische Staatsoper. Soloists include Jeanne Piland (Jan 18), Anne Salvan (Jan 22), Ulrike Schneider, Vinson Cole, Alan Titus and Harry Dworchak; 8pm; Jan 18, 22

■ NEW YORK

CONCERT
Carnegie Hall Tel: 1-212-247-7800
● Evgeny Kissin: the pianist performs "Chaconne" by J.S. Bach/Busoni, Mozart's "Sonata No.9 in D Major" and R. Schumann's "Kreisleriana" and "Toccata"; 8pm; Jan 19
DANCE
New York State Theater
Tel: 1-212-875-5570
● New York City Ballet: perform the choreographies "Jeu de Cartes", "Sinfonia", "Walpurgisnacht Ballet" and "West Side Story Suite"; 8pm; Jan 17
OPERA & OPERETTA
Metropolitan Opera House
Tel: 1-212-362-6000
● Don Giovanni: by Mozart. Conducted by James Levine and performed by the Metropolitan Opera. Soloists include Jane Eaglen, Patricia Schuman, Ruth Ann Swenson and Thomas Hampson; 8pm; Jan 18

■ PARIS

CONCERT
Théâtre de la Ville
Tel: 33-1 42 74 22 77
● Gidon Kremer: and Kremerata Musica perform works by Gubaidulina and Piazzolla; 6pm; Jan 20

■ ROTTERDAM

CONCERT
De Doelen Tel: 31-10-2171700
● Rotterdams Philharmonisch Orkest: with conductor Claus Peter Flor and violinist Kyung Wha Chung perform Brahms' "Violin Concerto" and "Symphony No.4"; 8.15pm; Jan 17, 18, 19
EXHIBITION
Museum Boymans-van Beuningen
Tel: 31-10-4419400
● David Hockney. Paintings and photographs of paintings: exhibition of recent work by the English painter. The exhibition includes paintings of Hockney's favourite dachshunds Stanley and Boogie, still lifes, and photographs of paintings made in Hockney's atelier; to Jan 21

■ SAN FRANCISCO

CONCERT
Louise M. Davies Symphony Hall
Tel: 1-415-864-6000
● St Petersburg Philharmonic: with conductor Mariss Jansons perform Dvorák's "Symphony No.9 (From the New World)" and Rachmaninov's "Symphonic Dances"; 8pm; Jan 17

■ STOCKHOLM

DANCE
Kungliga Teatern - Royal Swedish Opera House Tel: 46-8-7914300
● The Nutcracker: a choreography by Pär Isberg to music by Tchaikovsky, performed by the Royal Swedish Ballet; 12noon; Jan 17, 18 (7.30pm)

■ VIENNA

CONCERT
Konzerthaus Tel: 43-1-7121211
● ORF-Symphonieorchester: with conductor Pinchas Steinberg perform works by Rossini, Verdi, Borodin and Offenbach; 7.30pm; Jan 19

■ WASHINGTON

OPERA & OPERETTA
Eisenhower Theater
Tel: 1-202-467 4600
● Verlobung im Traum: by Krása. Conducted by Israel Yinon and performed by the Washington Opera; 7.30pm; Jan 17, 19, 22

WORLD SERVICE

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Financial Times Business Tonight

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Financial Times Business Tonight

Martin Wolf

A gamble with stability

The UK's policy of setting an inflation target is better than the alternatives, but it still leaves too large a role for short-term political manipulation

Here is an investment strategy for you: ask anyone you meet to toss a coin; promise to pay £110 if it comes up heads; but demand £100 if it comes up tails. You win on the first toss. Have you discovered an effortless way to make money?

Hardly. Yet if you were chancellor of the exchequer, you might win plaudits for your cleverness. In essence, this was the gamble Mr Kenneth Clarke took last May when he rejected the advice of his officials to raise the base rate of interest by half a percentage point. His decision turned out to be right, but was still a mistake.

The chancellor may believe he is better able to judge the likelihood of different inflation outcomes than his officials. If so, he should replace them. More probably, he wants to risk higher inflation. That is what creditors of the UK government fear, as can be seen from the gap between yields on 10-year gilts and D-Mark bunds, at more than 1½ percentage points. It can also be seen in the gap between yields on conventional and index-linked gilts, an indicator of expected inflation, at 4 percentage points, 1½-2 points above the official target.

Investors' assessment of prospects is realistic. But it also creates a policy dilemma. If the inflation target of less than 2½ per cent were achieved, the long-term real rate of interest would be as high as 5 per cent, even for the government. If it were not, the credibility of policy would be further impaired.

The big question, however, is not how the policy game has been played so far. It is whether it is a good game. The answer is that today's regime deserves maybe two cheers.

The evidence suggests that the adverse effects of inflation on growth are modest, except when inflation is high. But the evidence is also that higher inflation does not deliver sustainable increases in activity. If inflation has no positive long-term effect on growth, what rate should be sought? A civilised state should prefer low inflation, because high inflation corrodes trust in government, reliance on the covert inflation tax subverts democracy and fear of unanticipated inflation generates social conflict.

There is, accordingly, a consensus in the industrial countries that macroeconomic policy should stabilise long-term inflation at low rates. The differences are over how.

Germany's Bundesbank still follows monetary targets, as do Japan and Switzerland. Several European countries – Austria, Belgium, Denmark, France, Ireland and the Netherlands – are guided by exchange rates against the D-Mark. Australia, Canada, Finland, Italy, New Zealand, Spain, Sweden and the UK have inflation targets. The US Federal Reserve informally targets money GDP.

The choice here is between targeting ultimate objectives, such as money GDP or inflation, or intermediate variables, such as the money supply or the exchange rate. As Andrew Haldane of the Bank of England notes in a lucid analysis of the academic literature, it is better to use all information than only some of it*. For this reason, it is better to pursue ultimate objectives rather than just one intermediate target. There are two caveats. People must know how the policy instruments affect the economy. More important, the credibility of policy must not be impaired by a switch from intermediate to ultimate targets.

The difficulties found in operating fixed exchange-rate regimes or monetary targets have shattered hopes that targeting intermediate variables will enhance credibility. The policies were not believed because they worked badly. That leaves the ultimate objectives. But which one? Is money GDP or, better, money demand preferable? Or should one choose inflation targets?

An inflation target has the obvious advantage that it is well understood and is a sensible guide for price-setters. The chart also shows that fluctuations in inflation follow closely behind those in aggregate money demand. Yet many object that pursuit of the inflation objective will create large fluctuations in output. This fear of short-term output instability is understandable and important.

Output might be destabilised for two rather different reasons. The first would be poor understanding of the economy. This is the main complaint of such critics as Professor Patrick Minford of Liverpool University. But this is not a criticism of inflation targeting *per se*. Prof Minford believes that potential economic growth is far higher than do the officials. Accordingly, he would also condemn any target they would come up with for money demand.

A second reason for concern about stability is that the lag between the policy change and the target is too short. The closer to today is the target date, the more likely it is that output will be destabilised, and vice versa. Because changes in interest rates alter inflation via changes in money demand, the lag between policy action and the target should normally be longer for an inflation target than for a demand target. But since the present target is for annual inflation only two years hence, it is affected by inflation 18 months hence. This does look destabilisingly brief. It would be sensible to lengthen the period.

More generally, however, any unexpected increase or decrease in money demand will affect real GDP and inflation in the same direction. No fundamental dilemma should then arise: controlling money GDP would shift policy in the same direction as would efforts to control inflation.

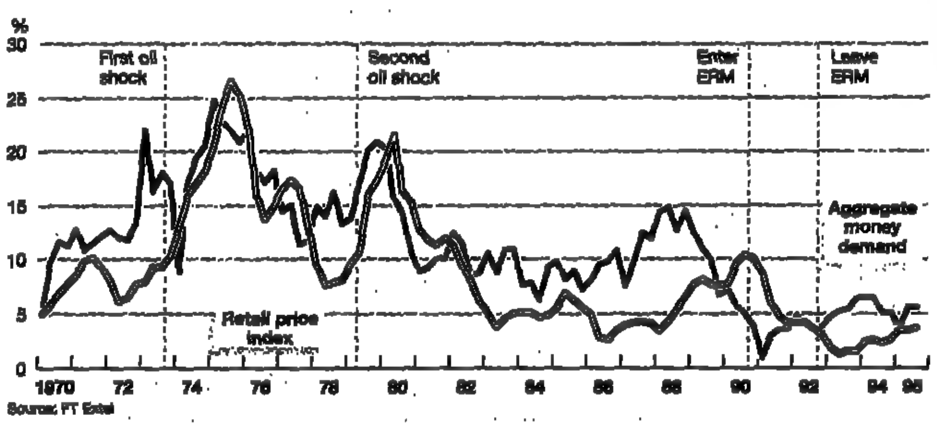
If there were a supply shock, however, such as a rise in the price of oil, inflation and real output would initially move in opposite directions. In this case, the authorities should lower inflation more slowly than planned, which would also accommodate a larger absolute jump in the overall price level. The same would apply, in reverse, to an oil price decline. Fortunately, such an override is explicitly included in the letter of October 12 1992 from Mr Norman Lamont, then chancellor of the exchequer, to the Treasury and Civil Service Committee, setting out today's monetary framework.

There is one last decisive advantage to the inflation target: it does not prejudge the feasible rate of real economic growth. This is contrary to the complaint that an inflation target must constrain real growth. That is, in fact, more obviously true of a target for money demand. Under such a target, higher than expected potential growth would force the government to push inflation lower. Under an inflation target, growth can be whatever it turns out to be, provided it does not prevent achievement of the target.

On balance, a properly specified inflation target, with reasonable lags and sensible overrides, is a little better than a target for money GDP. But the difference is not a large one. Far more important is a decision-making procedure judged likely to achieve whichever target is chosen.

Once simple policy rules are abandoned, the *only* way to impart needed credibility is to give a stability mandate to the monetary authority. The Ken and Eddie show – the monthly tussle between the chancellor and the governor of the Bank of England, Mr Eddie George – may be a fine spectacle. But it is not a sensible long-term arrangement. The UK has muddled its way through to a tolerable policy regime. But the chancellor's gamble shows that it is still not good enough.

The ups and downs of UK money demand and inflation



Source: FT Extel

**Andrew G. Haldane, Rules, Discretion and the United Kingdom's New Monetary Framework, Bank of England Working Paper Series No 40, November 1995*

Technology · Victoria Griffith

Take two Tylenol and E-mail me in the morning

Patients and medical staff have taken to the Internet and online services

Most doctors' clinics are closed at 9pm on a Friday, but this evening a group of multiple sclerosis patients is getting medical advice through the online service Medline. One sufferer wants to know if it is advisable to obtain an influenza vaccine. The answer, in this case, is no.

At other sites on the Internet, patients are logging on. One motor neurone disease sufferer asks fellow patients for wheelchair recommendations. A woman who has just had breast cancer diagnosed asks for advice on how to break the news to her children.

The Internet and online services are abuzz with medical queries and information. Hospitals, universities and government agencies are setting up sites where patients can obtain the latest information on trials and research. OncoLink, for example, is a joint project between the University of Pennsylvania and the National Cancer Institute to provide up-to-date information to cancer patients and their relatives via the Internet.

Patients are not the only ones using cyberspace to access medical information. Doctors tap into the Physicians Online service for practical information, such as the services available at different hospitals, and obtain specialist advice. "We had one case of a family doctor whose patient came down with a rare but not serious skin ailment called Shamberg's disease," says Stacey Shuemann of Physicians Online. "The doctor was able to key in the symptoms, get the information, and offer a diagnosis he wouldn't have been able to give otherwise."

Physicians at the health maintenance organisation Harvard/Pilgrim Health Care in Boston, Massachusetts, tap the Internet to keep in touch with their patients, using E-mail to set up appointments and monitor long-distance patients. "I see other applications for this in the medical world, too, such as patient billing and transfer of medical documents between physicians," says Paul Reich, an administrative doctor at Harvard/Pilgrim Health Care.

"The Net is a great forum for information-intensive industries, so medicine is a perfect fit," says Richard Villers, a multimedia analyst with International Data Corporation, a consultancy.

In the longer term, improved speed and video conferencing may lead to other uses as well. "There is the possibility of office visits via the Net, or even surgery, although that is probably a number of years out," says Stan Lepeak, multimedia analyst at Metagroup. Physicians would conduct the "visits" using special monitors geared to send information such as blood pressure.

Yet the increased use of Internet and online services in the medical world may carry dangers as well as benefits. One big concern is the misinformation that can spread so easily in an unregulated forum such as cyberspace. "A big risk is that patients will get information from people who aren't qualified to give it out," says Jerome Kassirer, editor of the *New England Journal of Medicine*. "It is too easy for people to read things like 'Hey, I've used this medicine and it really worked for me' and then go out and try it. We want to avoid self-medication."

> 'Even if I had a biopsy, lab results and everything I technically needed, I don't think it would be proper to do a diagnosis on the Net'

Confidentiality is another issue. Physicians complain that their use of cyberspace is limited by worries about who may eavesdrop. "We don't allow any confidential information to go out on E-mail," says Reich of Harvard/Pilgrim Health Care. "There have been some cases of security breaches on the Net, and we have to be careful." However, he points out that mail and the telephone, the media most used today to communicate with patients, are also potentially vulnerable.

Some physicians believe cyberspace will never offer an acceptable substitute for a personal visit. "As long as people use it for general information, or to set up appointments, it's OK," says Harvey Finkel, a physician at the Boston University Medical Centre. "But you need to see someone in person for a diagnosis. Even if I had a biopsy, lab results and everything I technically needed, I don't think it would be proper to do a diagnosis on the Net."

Yet many believe the hurdles can be overcome with time. Government regulation, including licensing, could go a long way towards solving the misinformation concern. "I think as time goes on, people will naturally migrate to providers who have credibility, such as universities and government agencies," says Ivor Benjamin, co-editor-in-chief of OncoLink and an assistant professor of medicine at the University of Pennsylvania.

Improving encryption techniques could help resolve the confidentiality problem, and video-conferencing and health monitors that could be read via the Net could make a cyber-visit more like an office consultation.

In the meantime, the Internet and online services look set to experience more growth in the information-intensive medical care industry. "There is no doubt that there is a lot of potential here," says Kassirer. "We just have to be careful about how this all develops."

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Laudable World Bank moves to fight poverty

From Mr William Day.

Sir, I read the review of Sir William Ryrie's book with interest ("Weed that can strangle economic growth", January 11). The World Bank has for years been considered the Great Satan by many in the non-governmental development world, who see at first hand the impact of its policies on the lives of poor people.

However, it has recently been making laudable moves, accelerated by its new director, to match its practice to its anti-poverty rhetoric, and is exploring how it might work with the non-government sector. As part of a network of local organisations supporting micro-enterprise around the world, Opportunity Trust welcomes this move.

If this new relationship is to produce the economic growth that Sir William states as "the basic test of development success", it will be vital to ensure that the flexibility and ability to reach the grassroots, that NGOs claim they can deliver, can be appropriately coupled to the vast resources of the bank, with its macro rather than microeconomic brief.

There is always a risk that such a *liaison* might lead to the worst of both worlds, combining small-scale impact with the dead hand of bureaucracy. That proviso apart, this emerging new relationship is one to applaud. We hope it will lead to a recognition that creating jobs for the world's poor represents one of the most realistic methods of combating poverty, whether viewed from Washington or a street vendor's stall.

William Day,
director,
Opportunity Trust,
103 High Street,
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Blind spot in analyses of fiscal and monetary links

From Mr Kevin Woodfield.

Sir, I am prompted to write after reading Paul de Grauwe's article "Why the link should be cut" (January 12), and your closely related leading article of the same date ("Slow growth trap for Europe").

Both analyses seem to me to suffer from the same blind spot: they presuppose that currency markets take little or no account of governments' fiscal behaviour. In other words, that fiscal and monetary policies need not relate to each other (or, worse, that largesse in the former, no doubt dressed up as "counter-cyclical", can improve the climate for the latter).

I would not recommend advising whomsoever emerges as the next Italian caretaker prime minister of such a course, caught as that otherwise dynamic private economy has been in the nexus of high public debt, a weak currency, inflation, high real interest rates, and still higher public debt.

You might also consider that Germany's economic difficulties might have something to do with Bonn's profligate approach to reunification, through which the state has commandeered more than half of national output.

Surely our starting point must be to acknowledge the links within and between our industrial economies. How else are we to assess the merits of integrating today a Europe whose modern roots lie in the powerful (and economically costly) myth of the nation as extension of the family?

Kevin Woodfield,
Rue Ortelius 10,
1040 Brussels, Belgium

An alternative agenda

From Mr Roger M. Bale.

Sir, Re your story "Eurotunnel in £8bn debt move" (January 11), the only commercial rationale I can think of for joining two loss-making railways with a very expensive tunnel is that the promoters hoped that, should they get into financial difficulties, they could suck in government money through the two state-owned railway systems.

One has to ask if the bond issue is the feint before the call?

Roger M. Bale,
Rocque Berg, St Clement,
Jersey JE2 6FT,
Channel Islands

Premature judgment on Tel

From Mr Alastair Budd.

Sir, Your editorial on Terry Venables' resignation as England's soccer coach ("Goodbye Tel", January 11) is a little premature.

If England should win this summer's Euro 96 competition, the Financial Times will no doubt publish an editorial urging the Football Association's international committee to extend Mr Venables' contract through to the World Cup in 1998.

Mr Venables has done a good job as England's coach, and judgment on his success or failure should be reserved by the British public (and press) until after Euro 96.

Alastair Budd,
20 rue du Nord,
1180 Rolle,
Switzerland

BT sees Oftel competition role as needing better balance

From Mr J.W. Butler.

Sir, We enjoyed John Kay's parable "A question of clarity and certainty" (January 12), but it may have left readers with a misleading impression of British Telecommunications' position. BT agrees that Oftel, the regulator, should move towards becoming more of a competition authority. That is right and inevitable in a market crowded with competitors. Our disagreement with Oftel is over how this should be done – a question of balance.

The problem BT sees in the director-general's proposal is the power it places in the hands of a single individual. He decides what is anti-competitive. He decides whether the company has acted in that way. He sets the punishment. There is no appeal.

In the dress code parable, everyone turns up in smart business suits one day only to be told that business suits are not appropriate dress – didn't they know that they should all be wearing jeans in the new era? The next day they all wear jeans but a new person is in charge. She says sorry, wrong again, you should be wearing sports jackets. You're all fired because you never obey the rules!

And the draft guidelines issued by Oftel suggest that some activities will be considered anti-competitive which most commentators would not recognise as such – even grey three-piece suits may not be business dress.

Telecommunications is a vital industry for the UK. It requires significant long-term investment. A private company can only invest its shareholders' money when there is a degree of clarity and where risks can be assessed.

The current proposals represent a level of uncertainty that will deter investment in this critical UK industry.

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COMMENT & ANALYSIS

FINANCIAL TIMES
Number One Southwark Bridge, London SE1 9HL
Tel: 0171-873 3000 Telex: 922186 Fax: 0171-407 5700
Tuesday January 16 1996

Stakeholders willy nilly

In discussing the future of the welfare state Mr Frank Field, chairman of the Commons social security select committee, has argued that the choice between compulsion and voluntarism may prove to be the ideological fault line between the two main parties at the next election.

Mr Tony Blair, the leader of the Labour party, appears to be taking his cue from Mr Field. While expounding his vision of the stakeholder society in Singapore last week, he took the opportunity to publicise his interest in the workings of the Central Provident Fund, which administers Singapore's pensions.

On the face of it, this is an odd potential model to attract the attention of the leader of a British left-of centre politician. At 40 per cent, the combined employers' and employees' compulsory contribution rate is unthinkable in a European context. The World Bank estimates that the real return on the fund, which is invested in non-tradeable government bonds, bank deposits and official foreign exchange reserves, was a mere 3 per cent, from 1980 to 1990, compared with 8.8 per cent in the UK.

If the Singaporeans are enthusiastic about their fund, it is more because they have obtained low-interest housing loans from it than that high retirement incomes have contributed to an already strong sense of social cohesion.

That said, the welfare states of western Europe are under pressure. The case for resorting to compulsion to raise the overall level of saving is thus worth exploring in principle. Singapore is not, after all, unique. Australia, Switzerland and Chile have adopted other versions of the compulsory model, which may be of more relevance to the UK.

Savings net

The progressive erosion of state pensions means that increasing numbers of elderly people are being pushed onto means-tested income support. The attraction of compulsion would be that by bringing all workers into the savings net, it would reduce the numbers dependent on social security in old age. Since employees' contributions are paid back with interest in retirement, this should not to be regarded as taxation by other means.

Whether a higher savings rate would necessarily increase levels of investment and growth in a large, open economy like the UK is a more difficult issue. To the extent that growth reflects profit opportunities in the domestic economy, higher savings may simply lead to increased investment in less mature economies elsewhere. But that produces its own dividend – if not of a kind welcomed in the past by Labour – and the arguments on either side are far from conclusive. The labour market effects, meantime, can be healthy given the right contribution rates and standardised portability terms.

Low incomes

The snags, especially for a left-of-centre government, are that some of those on low incomes, who would not otherwise have saved, will be forced to consume less over their working lives. High contribution rates may affect the costs borne by companies and contribute to unemployment, which is why Singapore retreated from its brief flirtation with a 50 per cent rate in the mid-1980s. There are big transitional difficulties, although British state pensions are sufficiently ungenerous to mitigate the problem of people having to pay twice for the same benefits. Arrangements have to be made for the unemployed and for women who leave the labour force to bring up children.

The principle of compulsion, long accepted in private occupational pensions in the UK, was banned on libertarian grounds by the Tories in 1988. In a society where people want more of those services like health and education that are provided chiefly by the state, the loss of freedom may well appear an acceptable trade-off. The biggest snag is that a heavily concentrated compulsory pool of savings, even in private hands, is a tempting honeypot for an interventionist government. This is certainly a legitimate and radical policy option for New Labour. But whether Mr Blair could convince the electorate that such funds could be properly insulated from a predatory state is another matter.

The need for a new Ostpolitik

Yesterday's commando attack aimed at ending the hostage crisis in the northern Caucasus has refocused international attention on Russia and its bitter internal conflicts. Many westerners despair of comprehending these disputes, let alone influencing events. Such defeatism may be understandable, but it is misplaced and dangerous.

Maintaining a sharp western focus on Russia will never be easy. The country is huge and diverse, and decades of isolation and cold war competition have left a legacy of mutual ignorance and suspicion.

But western countries must not fall into the trap of thinking that Russia deserves only sporadic attention, now that the cold war is over and the threat of mutual annihilation has been suspended. The re-integration of Russia into the global economy, the creation of a legal framework able to attract the investment needed to rebuild the economy, and the emergence of a confident middle class must be shared goals.

Other objectives include the prevention of nuclear proliferation, and the reduction of nuclear and conventional forces, as well as of the environmental hazards bequeathed by the former Soviet Union. The forthcoming report by Harvard University's Centre for Science and International Affairs underlines the global risks implicit in Russia's under-funded, poorly-guarded and haphazard approach to the decommissioning and storage of nuclear weapons.

This provides opportunities for rogue states or criminal groups to acquire nuclear weapons-grade material. It is a similar story in the civilian sector of the nuclear industry.

Internal affair

Meanwhile western governments and institutions have too often failed to express clear disapproval about decisions which violate the letter and spirit of Moscow's international obligations. Moscow is now stuck in the quagmire of Chechnya as the result of decisions taken in the old, secretive Soviet-style way. It might have found a less violent solution had the west not been so easily persuaded that this was a purely internal affair.

Chechnya shows that Russia still has a tendency to drift back to old ways. This year has started well for the men of the former KGB. Its external arm has provided Russia with a tough new foreign minister, Mr Yevgeny Primakov. As head of foreign espionage since 1991, Mr Primakov always believed that Russia's relationship with the West was at least partly adversarial. While accepting the need for co-operation in some areas, he never ceased to view the West as a rival.

Hostage crisis

Of all the possible successors to Mr Andrei Kozyrev, Mr Primakov is probably the least welcome in Washington. By selecting him, President Boris Yeltsin has signalled that he cares more about assuaging nationalism at home than soothing US fears.

The rising power of the former KGB over internal affairs has been highlighted by the hostage crisis, which came to a head yesterday with the storming of the village of Pervomaiskoye.

Mr Yeltsin pointedly entrusted the handling of the crisis to General Mikhail Barsukov, head of the Federal Security Service, the domestic branch of the former KGB. He has played a vital role in remoulding the security services to ensure their total loyalty to Mr Yeltsin. Increased influence for such hardline figures can only mean more emphasis on the use of force in places like Chechnya.

The western world, which faces terrorist threats of its own, is aware of the dilemmas facing Moscow, and understands Russian fears that Chechen violence will spread. But Russia's recent sledgehammer tactics, including the bombing of mountain villages, have been counter-productive and hardened resistance.

Such tactics may please the "war party" in the Kremlin, but they bode ill for Russia's economic and political reforms and for the chances of a constructive relationship with the West. If such a relationship is to develop, the West must state its views clearly, and put more energy behind its own search for a consistent, and long-term, Ostpolitik.

Chrysler's backseat driver

The battle between Kirk Kerkorian and the carmaker over the company's cash is coming to a head, say Haig Simonian and Richard Waters

The latest model from Chrysler, the smallest but most profitable of America's "Big Three" carmakers, is aptly named the Prowler. This vehicle – a study in sleek menace on wheels which will only be produced in small numbers – is unlikely to make much money. But the buoyant profits generated by the company's range of high-margin light trucks – including the popular Jeep brand – have turned Chrysler into a cash machine. And that, in turn, has made it a target for shareholder pressure.

"Chrysler has made an extraordinary turnaround on the back of attractive new vehicles and ruthlessly reduced manufaturing costs," says a senior manager at a rival US car company.

The battle for control of Chrysler's cash is about to heat up. Tracinda, the privately owned company controlled by Mr Kirk Kerkorian, a veteran Las Vegas-based dealmaker, has been leaning on the company for more than a year to reward its shareholders with higher dividends and bigger share buybacks. Now, nine months after an abortive buy-out attempt, the billionaire dealmaker – who owns 15 per cent of Chrysler – appears on the brink of launching a battle to win shareholder support for his own nominee to the company's board.

Despite some complaints from Tracinda about a poor quality record at Chrysler, the real battle is about the company's financial strategy. According to its largest shareholder, the carmaker has been too conservative with its cash: it should distribute more of its reserves – now at about \$6.5bn (£4.2bn) – to shareholders and should plan to buy back \$2bn of its own shares each year – twice Chrysler's target.

Early next month Chrysler is expected to respond to a series of demands made by Tracinda in November, all of which Tracinda says are geared to increasing the value of the company's shares. The proposals include increasing the present limit on any single shareholding to 20 per cent from 15 per cent and setting up a committee to discuss how much of its cash Chrysler should share with its owners.

Both sides have used the interval since Tracinda made its demands to sound out the 40-odd institutions which are Chrysler's leading shareholders.

All the signs are that Chrysler will reject Tracinda's demands. If so, Mr Jerry York, Tracinda's vice-chairman, has predicted a second round of lobbying of big shareholders and, probably, a battle for votes at Chrysler's next shareholders' meeting, likely to be in May.

Some of the big investment funds have already indicated their approval of the sparring between Tracinda and Chrysler. Mr York and Mr Bob Eaton, Chrysler's chairman, have both said separately that some shareholders view the "creative tension" caused by Tracinda's presence on the shareholders' register as beneficial.

Even supporters of Chrysler's existing management often stop short of offering their whole-hearted support ahead of the battle that could be about to break. According to Mr Harvey Heinbach, US motor industry analyst at Merrill Lynch: "A minority of shareholders applauds Kerkorian and thinks pushing Chrysler is a good thing."

Among them is Mr Seth Glickenhaus, a New York fund manager who is among the carmaker's biggest shareholders. While praising Mr Eaton's team as probably "one of the best managements in automotive history" and expressing doubts about Mr Kerkorian's ultimate objectives, Mr Glickenhaus said it was too soon to say whether he would side with Chrysler against ceding a board seat to Mr York. Much depends on the qualities of the candidate put up by Chrysler itself to contest the seat, he adds.

He also says the pressure from Tracinda has expedited dividend increases and share buybacks.

But while the skirmishing may have been helpful, few industry specialists believe a full-scale fight between Chrysler and Tracinda would be in anyone's interest. Even top executives from General Motors and Ford, Chrysler's two bigger rivals, which would gain most from any distractions for Chrysler's management, are sympathetic to the plight of their counterparts.

Mr Eaton has recently come under pressure to respond more aggressively to Tracinda's tactics. He now publicly accuses Tracinda of trying to obtain "creeping control" of Chrysler by raising the minimum shareholding limit. He argues that Tracinda is trying to become the dominant force in Chrysler without paying any premium for that privilege. Such a strategy flies in the face of Tracinda's claim that it is acting in the interests of all shareholders, he says.

Mr Eaton also attacks Tracinda's wish to put Mr York on the board. "We already have a perfectly good chief financial officer, so what can he [York] bring?", he asks.

He is similarly dismissive of Tracinda's demand to establish a committee to discuss the ideal size of Chrysler's cash pile. Tracinda's proposals, according to Mr Eaton, involved the inclusion of its own bankers on the committee. But giving Tracinda privileged access to the company's thinking would be unfair to other big shareholders, he argues.

Mr York retorts that there are numerous examples in US industry of big shareholders having a seat on a company's board – including, in the same industry, at Ford. As such, says Mr York, the Tracinda requests do not break any new ground in the area of corporate governance.

According to Mr Eaton, the most important issue at stake is Mr Kerkorian himself. "This is not a normal shareholder," he says.

The Chrysler chairman says Mr Kerkorian's record as a dealmaker, who frequently built up significant shareholdings in companies and then persuaded them to buy him out at a premium, suggests his priority at Chrysler is to maximise his personal gain, rather than boost value for all its shareholders. Mr Eaton argues that Mr Kerkorian's refusal to talk to the press or explain his plans reinforces the view that Tracinda has a hidden agenda.

Mr Eaton singles out events last April to support his claim. At that time, Mr Kerkorian joined forces with Mr Lee Iacocca, a former Chrysler chairman, to launch what was widely seen as an attempted takeover of the company.

Tracinda has denied its initiative marked any intention to bid, to tease out another bidder, or even to make such a nuisance of itself that Chrysler would be forced to buy back its shares at a premium.

However, even Mr York has difficulty in explaining what did happen last April. The episode was a "bad misunderstanding", he says. "Tracinda thought it was proposing a friendly, management-led buy-out of the company. The intention was for the Chrysler board to look at the proposal and assess it. The offer never would have been made if anyone had felt it would not have been welcome."

It is significant, however, that Tracinda only approached Mr York, who is widely respected in US financial circles, after the failure of its approach in April. Analysts see the appointment of Mr York, whose previous jobs were as finance director of Chrysler and IBM, as an attempt to restore Tracinda's credibility.

Even Mr York, however, who acknowledges that Tracinda's long-term intentions are one of the main concerns of Chrysler shareholders, is unable to give any assurances about what those intentions may be.

He says that Tracinda has no "exit strategy" for its investment – at least, not for the moment. But while he argues it is perfectly possible that Mr Kerkorian could remain as a long-term, benign investor, he gives no assurances that Tracinda would not sell out if the price were right. "It is not un-American to want to see the value of your investment appreciate," he says.

Mr York accuses the company's management of being too conservative in hording reserves, in spite of having a very strong cashflow and higher profit margins than its competitors. Not surprisingly, perhaps, his estimate that Chrysler can generate profits of \$9 a share this year is ahead of most estimates on Wall Street, where a level of about \$7 is generally viewed as likely.

If Mr York were to win the day and his financial projections prove over-confident, he could end up leaving Chrysler financially weakened, says Mr Glickenhaus: "He might get them to spend more of their cash than they should and they might get caught short when the next recession comes."

For now, though, these are groundless fears, says Mr York. "It is a false choice between now and the future," he says. "You can do both. The question is how you get there and what's the proper balance."

· OBSERVER ·

Down, then out

■ Paul Keating, Australia's plain-speaking prime minister, once quipped that Darwin was best seen from 20,000 ft in the air, on the way to Paris. Yesterday, the steamy port city had its revenge.

As the prime ministerial jet – an ageing Boeing 707 – stopped to refuel *en route* to Kuala Lumpur, someone detected a crack in the windscreen. At the very least, this was going to mean a lengthy stopover in Australia's northernmost city, while a replacement was sought and fitted.

Diplomatic consternation all round. Keating's visit to Malaysia is the first by an Australian premier for 13 years. Relations between the two countries have been particularly bumpy recently, with Keating referring to prime minister Mahathir Mohamad as "recalcitrant" for boycotting the Asia-Pacific Economic Cooperation group's first meeting in 1993.

With a federal election only weeks away in Australia, the prime minister's schedule in KL was tight to start with; a delay threatened to throw everything out of kilter, causing red faces all round.

Happily, though, it seems that Keating underestimated Darwin. A local businessman, Nick Paspaley, whose family runs one of the best-known pearling operations in the area, came up with seats on a company jet, enabling the prime minister and part of his entourage to resume their journey forthwith.

Plane stupid

■ Relations between Eurotunnel and the company which operates the Eurostar train service through the tunnel have always been tense. Now they have reached an all-time low. Eurotunnel's new commercial director, Bill Dix, wanted to take some clients to Paris to watch the England-France rugby match on January 20. But he was so appalled by the price Eurostar quoted him, that Dix and Co. are now taking the airplane instead.

Ekstra Mad Vlad

■ Vladimir Zhirinovsky, the Russian nationalist leader, appears in some pretty strange places. On Sunday he popped up in Denmark alongside Tina, a 17-year-old local beauty, giving an exclusive interview to Ekstra Bladet, a Copenhagen tabloid.

The paper got the scoop because it employed a Russian journalist – Vladimir Pimonov, who fled Russia in the 1980s. His family had known the Zhirinovskys from way back. So when Zhirinovsky decided he wanted to get his message out in the west he knew who to ring.

However, this might be Pimonov's one and only scoop in this area. His view is that Mad Vlad "is and always will be a political hooligan with the mentality of a scoundrel".

Eastern promise

■ A tide of nostalgia is washing over eastern Germany, with some of the unlikeliest relics of the communist regime resurfacing as sought-after style statements. Whether it is in search of Vatol car shampoo or Red Riding Hood demi sec German Sekt, Tempo processed peas (cooked in 10 minutes) or Karo cigarettes from Dresden, east Germans are discarding the once so desirable western ikons in a quest for their fading identity.

But the surest sign of rampant Ostalgia, according to the weekly newspaper Die Woche, has been the reluctance of some 40,000 east Berliners to swap their old passport for the requisite new papers by the end-1995 deadline. One in 10 of those who did effect the swap asked to keep the old version as a souvenir.

Boxing clever

■ Mario Soares and Anibal Cavaco Silva, whose sparring has enlivened Portuguese politics for the past decade, are hanging up their gloves without ever having fought each other for the heavyweight title.

The pugnacious politicians, whose temperaments are as far apart as their politics, exchanged constant jibes in their respective roles as president and prime minister, but never treated the country to a championship bout.

After his defeat in Sunday's presidential election, Cavaco Silva, 56, is retiring from politics to resume his post as a professor of economics. His 10 years as a conservative prime minister furnish him with raw material aplenty for his special subject, which is public finance. Meanwhile, Soares, 71, is saying "basta" to public life after a life-time in politics and 10 years as Portugal's Socialist president. At least the memoirs he plans to write should provide a blow-by-blow account of life in the ring.

Kids' stuff

■ Wall Street is being dragged slowly into the New Age 1990s. CS First Boston has sent out details of its high-yield conference at the Wigwam Resort, Phoenix, Arizona, in March, specifying that delegates may bring along children as well as spouses.

The invitation adds that children are welcome to the Wednesday and Friday evening entertainments. Babysitting services will be available. The "evening of comedy" on the Thursday night, however, seems not to be open to the kids – doubtless on account of the sophistication of the humour on offer...

The Financial Times

100 years ago

The Shipyards Dispute
Our Glasgow correspondent telegraphed last night: A meeting of the Clyde engineer employers is to be held at Carlisle tomorrow, where a proposal made by the Central Council of the Amalgamated Society of Engineers will be considered. The employers have not received tonight a reply to their offer sent to the mens' headquarters in London, but it is broadly hinted that if the mens' leaders submit to the Carlisle Conference of masters tomorrow a modification of their previous offer, the obstacle to a settlement will be cleared away.

50 years ago

Scope for Chinese bonds?
The Market thinks there should be scope in Chinese bonds at their present levels. It points out, first, that the political scene in China does seem at long last to be settling down; secondly that the Chinese have an excellent reputation as debtors, and thirdly that the strong American backing for the republic should mean that adequate funds for rehabilitation should be forthcoming from the United States.

FINANCIAL TIMES
Tuesday January 16 1996

Russia counts cost of change as US set to issue new $100 bill

The planned introduction of a new US $100 banknote is expected to cause a money-changing frenzy in Russia as millions of savers rush to trade in their old bills.

US authorities, who say the new notes are likely to appear in coming weeks, are opening a special hotline in Moscow to answer questions about them.

The dollar has become Russia's second national currency. Central bank officials estimate that $15bn-$20bn is held in cash in Russia, a figure which exceeds the Rbs56,000bn ($12bn at the market rate) in circulation as of last July. More US cash is held in Russia than anywhere else outside the US – at least three-quarters in $100 bills.

As a result, local demand for the new notes is expected to total billions of dollars in the first few weeks.

"Historically in Russia any alteration of banknotes has been very traumatic," said Mr Sergei Zatsepilov, an Inkombank official.

One of the country's leading retail banks, it has already placed orders with US commercial banks for shipments of the new notes. "There is a fear that many stores and so forth will refuse to accept the old banknotes."

But in Russia new money does not come cheap. With the sanction of the central bank, the leading commercial banks have said they will charge $2 to change old for new. The public is outraged, but bankers insist they need the commission to pay for flying planeloads of cash from the US and around the nation.

Introduction of the new notes, little noticed in the US, has highlighted the Russian economy's dependence on US cash. But Russians are remarkably fussy about precisely which notes they are willing to use. US banknotes issued before 1990, regardless of their denomination, are effectively worthless within the borders of the Russian Federation, and stores, banks and restaurants regularly reject US bills which have been marked or are slightly torn.

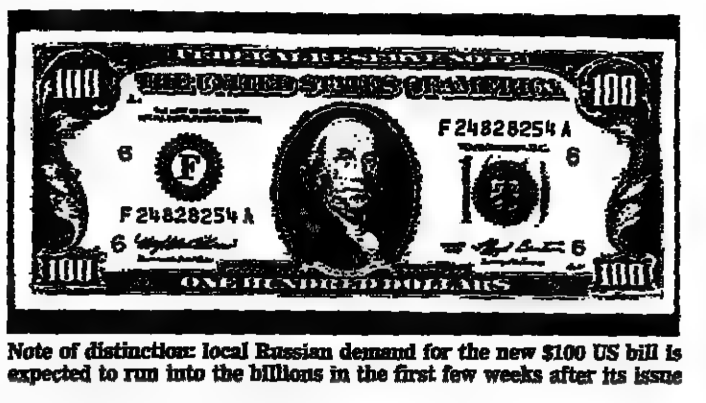
"There's a certain mythology that has grown up around US dollars," said Mr Zatsepilov. "People try to have the cleanest and the newest money that they can."

This obsession with the physical appearance of money, which has made even the most wizened *babushka* an expert in US Treasury watermarks, has a valid basis. According to Mr Viktor Melnikov, the Russian central bank official responsible for currency operations, as much as a fifth of the US cash in circulation in Russia is counterfeit.

Mr Zatsepilov says that the 1990 cut-off date for US cash – cursed by countless visitors – stems from fear of foul play: the anti-counterfeit devices used by most Russian businesses rely on a security strip introduced in US notes only after 1990.

The mania for new bills has a price. Despite the repeated public assurances by the US ambassador that the US government will continue to honour old money, many Russian small businesses and consumers have already begun to refuse the old notes. Russian retail bankers say they have begun to stockpile smaller denominations, particularly $50 bills, to cope with the growing prejudice.

Russians are expected to draw so sharp a distinction between the old and the new notes that Mr Zatsepilov says his bank is considering offering variable rates of interest on US-dollar accounts depending which banknotes the client is willing to accept when withdrawing money. Clients who insist on the new $100 may be forced to accept a slightly lower interest rate.



Note of distinction: local Russian demand for the new $100 US bill is expected to run into the billions in the first few weeks after its issue

Chrystia Freeland in Moscow discusses how Russian insistence on the newest available US *currency* is *forcing* authorities to prepare for a trade-in rush.

Asian 'tigers' pressed for loan funding

Development bank faces shortfall as west cuts aid budgets

By Edward Luce in Manila

The leading Asian "tiger" economies were pressed yesterday to step up donations to the Asian Development Bank to make up for a growing shortfall caused by dwindling western aid budgets.

Mr Mitsuo Sato, president of the ADB, said funds for its Asian Development Fund, which provides soft loans, would run out within 12 months.

Richer countries in the region, such as South Korea, Taiwan, Hong Kong and Singapore, should display "Asian solidarity" by increasing their contributions to the ADB in the light of severe western budgetary restraints, he said in Manila.

"The position taken by traditional donors to the Asia-Pacific is somewhat mixed," Mr Sato added.

"They say it is the most dynamic region in the world. But Asia is still home to the greatest amount of poverty in the world, especially the western part. Bangladesh, Vietnam, Cambodia and Laos can't cope with poverty without concessional funds."

At the last aid pledging session in 1992, $2.4bn was raised for the soft loan fund. Of this, South Korea and Taiwan contributed just $15m each while Singapore donated no funds, expressing disapproval of "subsidy" culture. The US, still in arrears to the fund, pledged $680m.

Privately, ADB officials concede that South Korea, on which many hopes have been placed, is unlikely to increase its contribution to the soft loan fund dramatically unless it receives approval to increase its official stake in the shareholding of the bank.

With a 5.3 per cent share in the ADB, Seoul believes it is underweighted. The US and Japan both have around 16 per cent of the bank's ordinary share capital.

Mr Sato, who said he had called a meeting of leading donors in Bonn next month to discuss the problem, said the ADB was responding to pressure to raise lending to the social and environmental sectors.

Over half the funding was now directed at these areas rather than traditional infrastructural and commercial ventures.

"The most serious question, if the concessionary fund shrinks, is that we can't fund projects which have a high social rate of return rather than a high commercial return," he said. "These areas are becoming more important."

Mr Sato did not expect the issue of the soft-loan fund to be resolved at next month's meeting. It was unlikely other countries would immediately make up for US reluctance to maintain present funding levels.

"These talks are taking place in less than ideal conditions. The overall trend is to a shrinking of concessional resources for development aid," he said.

The Manila-based bank, which raised its lending 49 per cent to $5.5bn in 1995, calculates it needs $4.5bn for the next four-year soft loan fund. Soft loans are given to the poorest Asian countries at 30-40 year maturities, with a 10-year grace period, repayable at 1 per cent interest a year.

Magazines trade insults

Continued from Page 1

712,000, compared with Forbes's 759,000, although its worldwide circulation is larger. And by Fortune's own calculation, Forbes ran 4,542 pages of advertising last year, against its own 3,184.

Fortune argues, however, that Mr Forbes has had a free ride from a political press unfamiliar with his business methods. "Is there anything in his background to suggest he has what it takes to be president?" it asks. "The blunt answer is no."

Forbes's reply is equally blunt. "To respond to [the charges] would be to dignify the business equivalent of tabloid journalism," it said. "We at Forbes will simply continue to do what we have done for years: clean Fortune's clock."

Russians storm rebels

Continued from Page 1

the only prominent opposition politician to support yesterday's storming of Pervomaiskoye.

The hostage drama has also deepened rifts in Russia's leadership. Since the stand-off began nearly a week ago, the increasingly powerful hardline faction in the Kremlin has openly accused Mr Victor Chernomyrdin, the moderate prime minister, of provoking the crisis by his lenient treatment of Chechen fighters in a similar hostage-taking incident last June.

And in an echo of the strong international protests against Russia's invasion of of Chechnya last autumn, the French foreign ministry and UN officials yesterday urged Moscow to press for a negotiated settlement.

THE LEX COLUMN

Yielding to pressure

The Bundesbank's superior record of controlling inflation means, all other things being equal, that German government bonds should be more expensive than US Treasuries. For most of last year, this was not the case. But the German market's premium, evident in 1994, seems set to reassert itself. This is not only because the US market looks expensive but also because bunds are cheap.

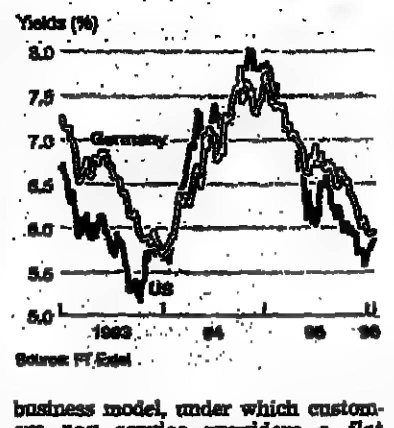
The US market has already priced in any good news on rate cuts, having discounted easing of around ¾ point. However, failure to agree a budget deficit reduction plan is starting to weigh on the market. At this stage, any agreement would help, but a deal which front-loads tax cuts and delays spending cuts could leave investors feeling sceptical – and nervous.

In Germany, on the other hand, bad economic news is boosting bond prices. High unemployment is keeping a tight lid on inflation. Furthermore, after a flat third quarter, the German economy may actually have shrunk in the final three months of 1995. If the economy is again flat in the first quarter, it will be stretched even to grow a paltry 1½ per cent in 1996. As the D-Mark continues to strengthen against the yen, the case for further cuts is growing. Even without them, there is scope for the yield curve to flatten.

Having underperformed the US bond market last year on the way up, bunds would doubtless outperform in bearish conditions. Even without a significant US market correction, German bunds could soon be yielding as much as ¼ point less than Treasuries.

FT-SE Eurotrack 200:
1602.9 (+0.3)

10-year government bonds



Source: FT Extel

Internet/telecoms

Much has been made of the threat the Internet poses to traditional telecoms operators, such as British Telecommunications, AT&T and France Télécom. Jeremiahs point out that it is possible to make international phone calls over the computer network for the price of a local call. Since international calls are the telephone companies' most lucrative business, Internet competition will hit their profits hard, say the doomsters.

This vision of the telecoms operators' future is excessively pessimistic. Though phone calls over the Internet are technically feasible, they suffer from two drawbacks. The first is the slight timelag; this is a problem inherent in the technology. The second snag is that the Internet regularly gets congested; this is a function of its business model, under which customers pay service providers a flat monthly fee in exchange for unlimited usage. As a result, people have no incentive to ration their usage. And since the whole system is rather chaotic, without any proper billing system, it is impossible to ensure that all parts of the network have enough capacity. If most of the current phone traffic were diverted to the Internet, it would clog up.

It is, of course, only a matter of time before the Internet's drawbacks are overcome. An advanced form of switching technology, dubbed "ATM", will eliminate the time-lag. A proper billing system could also be introduced, allowing charges in relation to usage and so giving suppliers a stronger incentive to deal with congestion. The effect of such moves, though, would be to turn the Internet into something much more like the current telephone network. Indeed, the next generation Internet and telephone networks may be one and the same.

That said, phone companies cannot afford to sit idly by, twiddling their thumbs. Their tardiness in entering the Internet market as service providers means they are allowing rivals to establish relationships with their customers. Many operators have also failed to promote a technology, called "ISDN", which provides faster connections to the Internet than ordinary phone lines. As a result, they risk being outflanked by cable companies with still faster connections.

Even more importantly, the phone companies' own business model – based on charging for usage, with sharply higher tariffs for long-distance calls – is under threat. The bulk of their costs is incurred in hooking customers up, with usage and distance less important. Logic points to a charging structure that is something of a hybrid of current phone networks and the Internet – with fairly high access charges and low usage tariffs.

Phone companies such as BT will have few problems adapting because of its relatively liberal regulatory regime. For others, it will not be so easy. Deutsche Telekom and Telecom Italia have already experienced political backlash this year in response to plans to "rebalance" their tariffs. If they fail to do so, rivals – whether via the Internet or more traditional means – will cherry-pick their best custom.

Forte

Better late than never, Forte has yielded to pressure to split the roles of chief executive and chairman. The advantage of waiting so long is that it could just convince some wavering institutions to give the company the benefit of the doubt by rejecting Granada's hostile bid. But the snag, as with the rest of Forte's stalwart defence, is that the company gives the impression of being dragged into action kicking and screaming.

There is even an argument that yesterday's changes have not gone far enough in addressing concerns about Forte's management. While relinquishing the chairmanship, as chief executive Sir Rocco Forte will continue to run the business; Sir Anthony Tennant's shift from deputy chairman to non-executive chairman is hardly a radical change. Both men have presided over the poor share price performance which facilitated the bid. Nonetheless, although the spirit in which it was made may be questioned, it goes some to address the view that Forte is still an old-style family firm. At this late stage, a more drastic reshuffle might have smacked of real desperation.

There may be a lesson for other companies which have yet to make a formal distinction between the roles – around a fifth of those in the FTSE-100 index. While institutions may not quibble with successful companies, corporate governance is an issue when things go awry. Since it is obviously easier to attract top managers in good times, other companies would do well to act now rather than wait to be pushed.

Additional Lex comment on Tomkins, Page 26

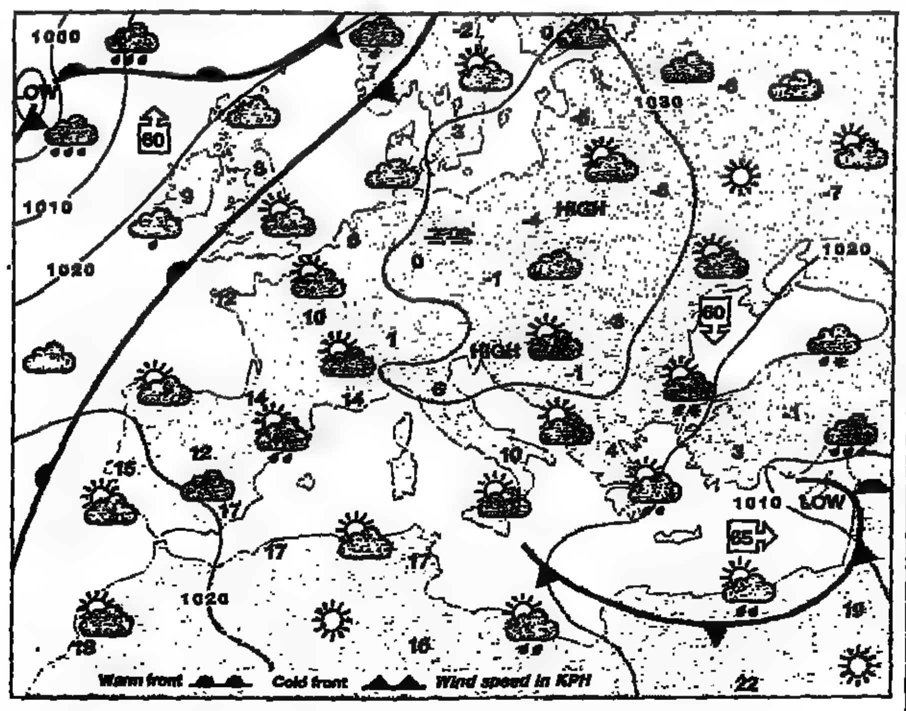
FT WEATHER GUIDE

Europe today

Ireland will have patchy light rain at times. Scotland and England will be mainly dry with occasional breaks in the cloud. A weak southerly flow will direct mild air into France and the Benelux. Most places will notice bright sunny spells but low cloud will linger along the North Sea coast. The Iberian peninsula will be mainly dry but there may be showers on the Spanish coasts. Portugal will be fair with sunny spells. Italy will be sunny. A strong high pressure system will promote calm conditions across central Europe. There will be sunny periods from Germany and the Alps to Poland and Croatia. Patchy fog is also expected. A low in the eastern Mediterranean will cause showers. In its wake, strong breezes will direct cold, dry air towards Greece.

Five-day forecast

The Balearics and eastern Mediterranean will be unsettled with showers during the next couple of days. Sicily will have showers later. Stationary high pressure will promote calm and cold conditions throughout Russia. Central Europe will be dry with occasional sunny spells. Frontal systems with rain will slowly cross Ireland.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	22
Accra	cloudy	33
Algiers	fair	18
Amsterdam	fair	8
Athens	cloudy	5
Atlanta	cloudy	15
B. Aires	thund	28
B.ham	cloudy	8
Bangkok	sun	33
Barcelona	shower	14
Beijing	sun	0
Belfast	cloudy	8
Belgrade	fair	1
Berlin	cloudy	0
Bermuda	shower	19
Bogota	fair	19
Bombay	fair	28
Brussels	fair	8
Budapest	fair	1
C.hagen	fair	1
Cairo	fair	17
Cape Town	sun	29
Caracas	fair	29
Cardiff	drzzl	8
Casablanca	fair	17
Chicago	cloudy	3
Cologne	fair	8
Dakar	fair	28
Dallas	fair	22
Delhi	fair	19
Dubai	fair	21
Dublin	cloudy	9
Dubrovnik	fair	9
Edinburgh	cloudy	8
Faro	cloudy	17
Frankfurt	cloudy	3
Geneva	cloudy	4
Gibraltar	cloudy	14
Glasgow	cloudy	8
Hamburg	fair	4
Helsinki	cloudy	1
Hong Kong	fair	22
Honolulu	fair	28
Istanbul	rain	3
Jakarta	cloudy	27
Jersey	fair	11
Karachi	fair	22
Kuwait	shower	15
L. Angeles	fair	19
Las Palmas	shower	20
Lima	cloudy	27
Lisbon	fair	16
London	cloudy	9
Luxbourg	fair	4
Lyon	fair	8
Madeira	shower	17
Madrid	cloudy	12
Majorca	cloudy	17
Malta	fair	15
Manchester	cloudy	9
Manila	cloudy	30
Melbourne	fair	24
Mexico City	sun	18
Miami	fair	24
Milan	fog	8
Montreal	cloudy	-8
Moscow	snow	-5
Munich	cloudy	0
Nairobi	fair	28
Naples	sun	14
Nassau	fair	25
New York	fair	1
Nice	sun	13
Nicosia	shower	15
Oslo	cloudy	0
Paris	cloudy	7
Perth	sun	35
Prague	fair	1
Rangoon	fair	32
Reykjavik	rain	5
Rio	fair	29
Rome	sun	14
S. Frsco	shower	13
Seoul	fair	-1
Singapore	cloudy	30
Stockholm	cloudy	3
Strasbourg	cloudy	2
Sydney	fair	26
Tangier	fair	16
Tel Aviv	shower	16
Tokyo	cloudy	12
Toronto	snow	1
Vancouver	rain	5
Venice	fair	8
Vienna	fair	2
Warsaw	fair	-3
Washington	fair	3
Wellington	rain	17
Winnipeg	snow	-12
Zurich	cloudy	2

FINANCIAL TIMES

COMPANIES & MARKETS

Tuesday January 16 1996

IN BRIEF

'Hoax' loss report hits Fokker shares

Shares in Fokker, the troubled Dutch aircraft manufacturer, fell sharply on reports of a large 1995 net loss, contained in a unsigned fax purporting to be an internal memo between executives at Daimler-Benz Aerospace, Fokker's controlling shareholder. Fokker quickly dismissed the fax as a hoax designed to undermine its share price, which recovered later. Page 22

Van Leer confirms plan for partial float
Van Leer, the privately-held Dutch packaging group, is to be partially floated on the Amsterdam stock exchange later this year, confirming long-held expectations that the company would seek a listing. Page 22

Wharf agrees sale of Omni hotel chain
Omni Hotels, an up-market US hotel chain, is set to change hands following an agreement by Wharf, the Hong Kong conglomerate, to sell the company for an undisclosed sum to TRT Holdings, a company privately held by the Rowling family of Corpus Christi, Texas. Page 24

Citic Industrial Bank profits rise 47%
Citic Industrial Bank, which is controlled by the state-owned China International Trust and Investment Corporation, has reported a 47 per cent increase in profits for 1995 to Yn1bn ($123m) from Yn680m the previous year. Page 25

Regulations weigh heavy on Thai shippers
Onerous regulations and the lack of a competitive tax policy are taking a toll on Thai shippers. The country's second largest, Regional Container Lines, has reflagged its vessels in Singapore and the largest, Precious Shipping Lines, is threatening to follow suit. Page 25

C&W rebuffed over top appointments
The UK government has refused to allow Cable and Wireless, the telecommunications group, to appoint non-Britons to the roles of both chairman and chief executive, but has agreed that one of the positions can be held by an overseas executive. Page 25

Technical problems for Gates Rubber sale
Tomkins, the UK industrial conglomerate, said it was close to resolving "technical issues" which have delayed its estimated $1bn acquisition of Gates Rubber, the privately-owned US automotive and industrial components group. Page 25

City surprised by M&G resignation
M&G Group, the leading UK unit trust and fund management company, shocked the City of London by announcing the departure of its chief operating officer, Mr Anthony Shearer, after a "clash of personalities". Mr Shearer had been widely regarded as the likely heir to Mr David Morgan as M&G's managing director. Page 26

EU farmers' incomes reach 20-year high
Farmers in the European Union are enjoying their highest income levels for 20 years as they continue to benefit from reforms of the Common Agricultural Policy, according to Eurostat, the EU's statistical office. Page 27

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)

Rises			
Asko	753	+	30
Degussa	535	+	15.3
Porsche	767	+	12
Wella	747	+	7
Falls			
Bilf & Berg	678	-	10
CKAG Col pr	830	-	15

NEW YORK ($)

Rises			
Maybelline	38⅝	+	2¾
Falls			
Apple Mats	32½	-	2⅝
Dell Cmptr	25⅞	-	2¼
Intuit	60¼	-	5¼
Microsoft	83	-	2¾
Novellus	45¼	-	4
Hummingbird	41½	-	3½
Softkey	28	-	2⅛
Speedy Mflr	10⅛	-	1

LONDON (Pence)

Rises			
De la Rue	704	+	15
Dreck Hldgs	2888xd	+	118
ML Labs	394	+	15
T&N	166	+	7
Falls			
Inspirations	104xd	-	7
Tomkins	259	-	10

TORONTO (C$)

Rises			
Clarets Gold	10	+	¼
Lox Lab	16⅞	+	1
Newbridge Net	64½	+	1

PARIS (FFr)

Rises			
Air Liquide	874	+	17
Banc Comp	508	+	14.5
LVMH	1059	+	19
Falls			
Accor	633	-	13
Ecco	811	-	27
Fonc Lyon	495	-	14

HONG KONG (HK$)

Rises			
Li & Fung	6.75	+	0.50
Nanyang Hlds	6.65	+	0.55
New Asia A	19.75	+	1.65
Falls			
COW Intl	0.85	-	0.05
Grande Hldgs	4.0	-	0.20
Kingboard Chm	1.6	-	0.08

BANGKOK (Baht)

Rises			
Ayudhya Inv	163.0	+	14.0
Hemaraj	133.0	+	12.0
Nat Publish	44.5	+	4.0
Falls			
Fst Asia Sec	81.0	-	11.5
Gen Eng	57.0	-	5.0
Krungthep	123.0	-	12.0

Tokyo closed, New York and Toronto prices at 12.30pm.

'Megabank' mooted by Belgian minister

Banks told to strengthen through merger or risk takeover from abroad

By Emma Tucker in Brussels

Belgian banks risk being absorbed by foreign banking groups if they do not merge to create a Belgian "megabank", the deputy Belgian prime minister said yesterday.

Mr Elio Di Rupo said Belgium's leading banks should "anticipate the future", in order to compete internationally and avoid job losses. "With monetary union, competition will become stronger and Belgian banks will lose the protection and supremacy that the Belgian franc currently gives them on the national market," he said.

Mr Di Rupo's comments added to speculation that some of Belgium's biggest banks are considering a merger to strengthen their presence in Europe before the introduction of a single currency in 1999.

Kredietbank, one of Belgium's top three banks, said such a merger was not an immediate priority. "For the moment we can realise our strategic objectives on our own," it said. "Our board is convinced that you can be profitable without being big. We have been reviewing our credit processes and we can be very competitive even if there is a megabank in Belgium."

Last week, Mr Etienne Davignon, chairman of Société Générale de Belgique, said he wanted Générale De Banque, of which SGB holds 30 per cent, to seek "associations" with other banks, to strengthen its position.

He said the bank should look for links that would add value and improve its competitiveness.

"I do not exclude a merger of the Générale de Banque with other Belgian banks," he told the Flemish daily De Financieel Ekonomische Tijd.

Mr Davignon is just one of many Belgian bank chief executives and senior politicians who have floated the idea of a large merged bank. The chief executive of Banque Bruxelles Lambert, Mr Daniel Cardon, has said he was looking for a partner for the BBL.

Even Mr Philippe Maystadt, the finance minister, has intervened on the issue. Last month, he said he was worried that none of the top 15 European banks was Belgian.

Mr Francois Narmon, chief executive of the Credit Communal bank, which has a stake in the BBL, also called for the creation of a big Belgian finance group.

But the Belgian Bankers' Association remains sceptical about interventions by politicians, arguing that the only role for the government should be to create an environment for mergers to take place. "Politicians are interfering with the whole discussion, because they are worried about the consequences of economic and monetary union," it said.

Arjo to lose 700 jobs after falling demand

By Tim Burt in London

Arjo Wiggins Appleton, the Anglo-French paper group, yesterday announced almost 700 job losses and the closure of one of its European plants as part of a £100m ($154m) cost-cutting.

The company, which was hit last year by destocking and increased raw material prices in the paper industry, said the workforce in Europe would be cut by more than 7 per cent as Arjo fought to improve productivity.

While most of the redundancies are expected to take place in France and the UK, Arjo warned that a further 340 jobs could be cut in Belgium and Germany if customer demand failed to improve.

In total, 260 jobs will be cut in Britain, 235 in France, 180 in Belgium and 15 in Germany.

Mr Alain Soulas, chief executive, said the problems reflected a malaise among all paper manufacturers in continental Europe.

"Capacity fell from 85 per cent to 50 per cent in November and December, and it has not yet improved," he said.

Arjo has decided to reduce output in its printing and wiring division by cutting 20 per cent of the workforce and mothballing some of its carbonless paper-making equipment.

The company said it would also be closing its plant near Grenoble, reducing capacity in its fine papers division by 10 per cent.

Mr Soulas added that Weissenstein, its lossmaking German speciality paper manufacturer, would be sold or closed.

The redundancies and plant closures are expected to cost £62m, although the full impact could exceed £100m following write-offs and revaluations.

Details of the restructuring followed Arjo's profits warning last November, when it predicted that demand would remain subdued during 1996.

Since then, it has also unveiled a management shake-up by appointing Mr Daniel Melin – chairman and chief executive of Saint-Louis, the French paper and food group – as deputy chairman. Saint Louis holds 40 per cent of Arjo.

The reshuffle was designed to allow Mr Soulas to devote more time to restructuring the European manufacturing operations. Mr Soulas, however, warned yesterday: "Demand for some types of paper is still falling."

He predicted that the restructuring would make Arjo a more flexible and productive manufacturer. It is already the world's largest producer of carbonless paper.

The moves were broadly welcomed by industry analysts, who said the plans were a step in the right direction. But some said they did not go far enough and Arjo needed to invest more to keep up with new advances in technology. "They're working hard to keep their head above water, but that's all they're managing to do," said one analyst.

Croatian group seeks London listing

By Richard Lapper in London

Pliva, a Croatian pharmaceutical manufacturer, could become the first east European industrial company since the 1989 fall of the Berlin Wall to obtain a primary listing on the London Stock Exchange.

Pliva, indirectly owned by the Croatian government, is seeking a London listing as part of plans to raise about $52m through a share offer aimed at international investors.

UBS, the Swiss bank, and Zagrebacka Banka, a local bank, are joint global co-ordinators for the deal and will begin a book-building operation in February.

As well as a full listing in London, which it hopes to obtain in March, the company will also seek to list Global Depositary Receipts in London, following the example of other east European companies.

Five east European companies – OTP Bank, Gideon Richter and MOL (from Hungary), Komercni Banka (from the Czech Republic) and Bank Gdanski (from Poland) – have listed GDRs, paper which represents underlying shares, in London.

The Prague-based Creditanstalt Czech Investment Fund obtained a London listing for its shares in October, but trading in the paper has been thin, and it is understood the fund could be delisted following a recent agreement to sell the business to a Czech bank.

Pliva is also raising capital from the European Bank for Reconstruction and Development (EBRD) as part of ambitious plans to expand its manufacturing plants, mostly based around Zagreb.

The EBRD has agreed to convert credits into a DM60m ($42m) block of shares in Pliva and provide a $20m loan facility. If the share offer is successful international investors would own 15.4 per cent of Pliva's enlarged equity, while the EBRD would own 11 per cent. The Croatian Privatisation Fund, which owns 52 per cent of Pliva's shares, will reduce its stake. Other shares are owned by employees and two government pension funds.

It is one of four companies listed on the Zagreb stock exchange. Pliva is the sixth biggest Croatian company in terms of income, with sales of $300m in 1994, and is among the country's three most profitable companies.

Other east European companies seeking listings have tended to favour stock exchanges elsewhere in Europe with Germany a particularly popular location.

Pliva plans to invest up to DM450m over the next five years.

Rationalisation of UK composite insurers will be hard to resist, reports **Ralph Atkins**

The case for bigger being better

Source: FT Extel

Takeovers are the rage; UK life insurers are in the throes of consolidation: but will the big composite insurers – which sell general and life insurance – join the merger and acquisition trail?

Investors certainly think so. The share price of Guardian Royal Exchange, regarded as one of the most vulnerable, has risen by 38 per cent in the past year, largely on takeover speculation. Royal Insurance and Sun Alliance have also risen sharply.

A compelling case can be made for rationalisation. Unlike banks, the composite insurers do not have the fixed expense of extensive high street networks to cut back. A large part of the sector's costs – brokers' and intermediaries' fees – vary according to business volumes.

But technology is creating opportunities to cut expenses. Back-office administration costs can be lopped and in particular with Royal Bank of Scotland, its telephone-based insurer Direct Line has cut out brokers and built a brand name with a steady income stream.

SBC Warburg points out that because an insurer's premium income may be double the shareholders' capital supporting the underwriting, a 15 per cent cut in management expenses could increase returns on equity by 40 per cent.

In addition, combined balance sheets should boost investment returns on income earned before claims are paid. Financial strength provides more muscle in negotiations on reinsurance contracts.

Strong balance sheets are also important in attracting commercial clients which are increasingly unwilling to deal with insurers with a smaller market capitalisation than themselves. They protect, too, against foreign takeover. Unlike other European countries, the UK non-life market is fragmented with at least half a dozen large participants none with a market share of more than 10 per cent.

Such arguments lie behind market speculation that GRE might agree to a takeover by, say General Accident, or that Sun Alliance might join with Royal Insurance.

Other logical link-ups might be for a composite insurer to swap its life business for the general insurance book of a smaller company – perhaps a mutual life insurer – allowing each to concentrate on areas of strength.

Foreign insurers without existing UK operations would not be able to exploit the same economies of scale but acquisitions might make strategic sense. Generali, the Italian insurer, has Europe-wide ambitions but is under-represented in the UK. Munich-based Allianz, Europe's largest insurer, wants to build UK life operations. US insurers might be attracted by strength of GRE's or Sun Alliance's continental European activities.

But if the arguments are so strong, why has there been so little takeover activity so far?

One explanation is that the expected downturn in the UK insurance sector is deterring buyers. Profits of composite insurers are at a high and, while strengthened finances make acquisitions easier to fund, the poor domestic outlook is encouraging expansion overseas. In the overcrowded and competitive motor insurance market, for example, widespread losses are expected in 1996. Wariness about UK prospects explain why CU, the largest composite insurer, bought French insurer Groupe Victoire in 1994 for £1.5bn ($2.3bn).

Moreover, if a group were seeking to grow market share at home, acquisitions are not the only means. "If you want to acquire business, it is almost cheaper to go out and market more and attract customers that way," says Mr Brian Shea, analyst at Salomon Brothers.

Takeovers would probably require a hefty bid premium of about 30 per cent above insurers' asset values.

Another explanation for the lack of activity is that the composite insurers are headed by a new generation of chief executives. They have taken the top seat only recently but have seen their groups' prospects transformed since the early 1990s. Royal Insurance under Mr Richard Gamble, for example, has moved from heavy losses to record profits and, as one analyst says, "they would just be gnashing their teeth to see it all taken away". With the sector's leaders all in their 50s, there are no obvious candidates to happily relinquish their jobs. That might point either to a hostile bid – or a wait until the expected fall in the composites' profits makes the economic pressure for consolidation unstoppable.

White-out wipes $20m from FedEx

By Richard Tomkins in New York

Wall Street was yesterday bracing itself for a blizzard of profit warnings after Federal Express, the US express delivery company, announced that last week's snowstorm on the east coast – one of the biggest this century – had wiped $20m off its quarterly revenues.

Federal Express said the severe weather, coupled with the effects of earlier storms, would reduce profits to a level "significantly below" Wall Street estimates for the quarter ending February 29. Its shares fell $2⅝ to $70⅝ in early trading.

Federal Express is the first big US company to have issued a snow-related profits warning. Wall Street analysts believe many more warnings will follow.

Last week's snowstorm brought economic activity almost to a halt in the eastern US for two days. A total of 18 airports were closed, most roads were impassable, mass transit was severely affected and most people were unable to get to work.

Mr Douglas Rockel, an analyst at Furman Selz, a Wall Street investment house, said the transport sector was particularly badly hit. "Transport is an outdoor activity. You name it: if it's in transport, they are affected."

Stock prices of US airlines, trucking companies and other transport operators have already fallen to reflect this: the Dow Jones transportation index fell 5 per cent last week.

Retailers would also suffer because people could not get to the stores, Mr Rockel said.

Federal Express had underlying earnings per share of 85 cents in its third quarter to February last year. Analysts had been predicting 98 cents a share this time, but Mr Rockel yesterday dropped his estimate to 70 cents.

EUROPEAN NEWS DIGEST

Giat expected to unveil heavy loss

Giat Industries, the state-owned maker of France's Leclerc tank and other army weaponry, is expected to announce a heavy loss for 1995, as well as further restructuring to keep the company going. The board is due to meet on Wednesday.

The company refused to comment on press reports yesterday that its total net loss for 1995 might be anywhere from FFr4bn to FFr12bn ($810.4m to $2.4bn), chiefly because of exchange rate losses made on its contract to supply more than 400 tanks to the United Arab Emirates. Losses of this level would legally require the government to recapitalise the near-bankrupt company.

In October, Giat announced it expected to suffer a FFr1.3bn operating deficit for 1995. The overall level of loss would, it said, depend on exchange rates and investments in the futures markets with advance payments received from the UAE. Any job cuts in the company's 11,000-strong workforce could spark industrial unrest, which might spread to the French government's DCN naval arsenals which are also due for restructuring. *David Buchan, Paris*

Seat sees further cut in deficit

Seat, Volkswagen's Spanish offshoot, will record lower 1995 losses and balance its books from 1997 onwards, Mr Utz Claasen, vice-president, forecast yesterday. Losses in 1995 would be lower than in the previous year, following the decline from Pta151bn at the end of 1993 to Pta29bn in 1994, Mr Claasen told Cinco Dias, the Spanish financial daily. The figures for 1995 will be published in April.

Mr Claasen said he hoped the Spanish carmaker would balance its books by 1997, although this did not mean its restructuring plan would be completed by then. Seat's main objectives for the next few years were to improve results and generate a positive cashflow to reduce net negative liquidity and pay all investments, the vice-president said. Seat had already registered a positive cashflow in 1995, both in gross and net terms, he said.

Mr Claasen said new productivity gains were necessary in the company's Martorell plant, which increased production by 10 per cent in 1995 to 343,500 cars. Seat would become profitable at production levels of between 400,000 and 500,000 cars, he said. *Reuter, Madrid*

Uncertainty delays Ina disposal

Political uncertainty in Italy has delayed the sale of the government's remaining 34 per cent stake in Ina, the insurer, which the Treasury had hoped would take place by mid-January.

The Treasury is in a position to proceed with the sale, through a placing of government bonds convertible into Ina shares. However, last week's resignation of Mr Lamberto Dini's administration, which left Italy with a caretaker government, has subdued the stock market. Ina's share price closed yesterday at L2,094, down from L2,112 on Friday. The Treasury is expected to await more favourable stock market conditions which may not present themselves until the political situation has clarified in early February. *John Simkins, Milan*

■ Fin Autogrill, a roadside restaurant chain spun off from food group SME and due to be listed on the Milan bourse on January 18, said it planned to expand in the next three years. Mr Gilberto Benetton, president, said the company would invest L400bn ($254.2m) in Italy and abroad in three years. "But this will require higher depreciation charges and will yield fewer profits and dividends," Mr Benetton said. *John Simkins*

Setback at Neste prompts share slide

By Hugh Carnegy in Stockholm

Neste, Finland's biggest industrial group by sales, yesterday reported a fall in sales and operating profits in 1995, but the newly-listed oil, energy and chemicals company said pre-tax profits were above 1994 levels.

The news, released just before trading closed on the Helsinki bourse, pushed Neste shares down FM1.10 to FM75, FM3 below the issue price set when the state sold a 10m tranche of shares in November, reducing its stake in the company to 83.6 per cent.

Preliminary figures from Neste showed operating profits slipped from FM2.24bn in 1994 to FM2.1bn ($481m). The company said the fall was mainly due to a FM300m rise in depreciation charges arising from a change in its treatment of goodwill associated with Borealis, a joint venture between Neste and Norway's Statoil.

Neste said a significant fall in financing expenses in 1995 would mean pre-tax profits would be somewhat higher than the FM1.2bn surplus achieved in 1994, although no figure was yet available.

Meanwhile, sales fell from FM49bn to FM42bn chiefly because of a deliberate reduction in Neste's international crude oil trading activities in line with a restructuring initiated prior to the privatisation issue. It spun off its petrochemical and polyolefins activities into Borealis in 1994.

The Neste share issue was launched as the Helsinki stock exchange was experiencing serious reverses after three years of steady gains had pushed it to record levels. The offering attracted only 23,000 retail investors. The issue was not marketed outside Finland, although international institutions took up an 11 per cent allocation.

The government was satisfied that the issue was taken up, given the circumstances, and that Neste shares remained close to the issue price despite the general share fall.

Fokker stock hit by 'hoax' loss report

By Ronald van de Krol in Amsterdam

Shares in Fokker, the troubled Dutch aircraft manufacturer, fell sharply yesterday on reports of a large 1995 net loss which the company quickly dismissed as a hoax designed to undermine its share price. The shares recovered later.

Dutch newspaper De Volkskrant reported it had received an anonymous, unsigned fax on Saturday purporting to be an internal memo between executives at Daimler-Benz Aerospace (Dasa), Fokker's controlling shareholder.

Dasa is in talks with the Dutch government, a minority shareholder, about a financing injection for Fokker.

The fax, sent to the paper's Amsterdam office from Germany, cited a 1995 loss of Fl 1.45bn ($898.3m), more than double the first-half loss of Fl 651m. But Fokker said it had no knowledge of such a figure, adding 1995 results had not yet been calculated.

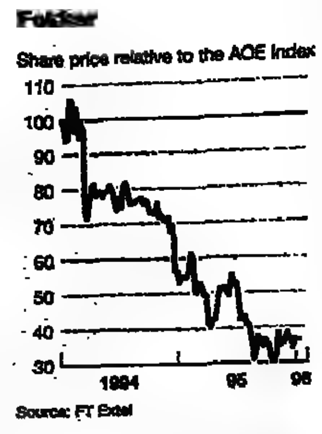
It said the fax seemed to be designed to manipulate its share price. "It's strange, to say the least, that a supposed internal company memo at Dasa would be written in English," Fokker said.

The newspaper also described the fax, written on Dasa's letterhead, as probably an attempt to manipulate the price of the shares.

The shares fell Fl 3.90 to Fl 6.60 in the first hour of trading but recovered to close at Fl 9.30 following Fokker's denial.

The recovery was aided in part by British Airways' announcement at the weekend that it had asked Fokker and four rival manufacturers to submit bids to supply up to 60 regional jets worth more than $1bn.

The big swings in Fokker's shares come just weeks before a rescue plan is expected to be agreed. Dutch press reports and Fokker officials have identified January 22 as a crucial date, with Daimler-Benz's supervisory board said to be due to meet for discussion of the issue. Daimler yesterday declined to confirm that the meeting was due to be held.



But it said a resolution of the Fokker issue was expected in weeks rather than months.

Earlier this month, Mr Ben van Schaik, Fokker management board chairman, said January would be a decisive month for talks on the rescue package, widely predicted to be worth more than Fl 2bn. A previous deadline of December 31 passed without agreement.

Dasa has kept Fokker afloat since mid-1995, when first-half figures showed that the Dutch company's shareholders' equity had been wiped out by record losses. When the December 31 deadline proved impossible to meet, Dasa extended its financial guarantees into 1996.

Van Leer confirms plan for partial flotation

By Ronald van de Krol

Van Leer, the privately-held Dutch packaging group, is to be partially floated on the Amsterdam exchange later this year, confirming long-held expectations that the company would seek a listing.

Mr Willem de Vlugt, chairman and chief executive officer, said the flotation would be a combined secondary and initial public offering. He declined to give any financial details, saying the underwriting banks, led by ABN Amro Hoare Govett, had not yet begun the process of valuing Van Leer's shares.

Van Leer, active in both industrial and consumer packaging, has sales of some Fl 4bn ($2.5bn), making it one of the largest private companies in the Netherlands. In 1994 it posted net profits of Fl 67m.

The company's existing shareholder, the Van Leer Group Foundation, a registered Dutch charity, will sell a "substantial part" of its 100 per cent stake. At the same time, the company will issue new shares to help finance growth, particularly of its consumer packaging business.

The Van Leer foundation, which finances projects to benefit children in the more than 40 countries where the group operates factories, will retain a majority holding in the company. The divestment of part of its stake will enable the charity to create a more liquid funding pool.

Mr De Vlugt said it was not yet clear when the prospectus would be published. But he added: "You understand that we would not be announcing our intention to go public if we did not expect it to take place this year."

The exact timing would depend partly on the condition of capital markets in the Netherlands. So far this year, the Amsterdam Stock Exchange has held on to its gains of 1995, with the Amsterdam EOE index hitting an all-time high last Tuesday.

The company, the world's biggest producer of steel drums, also makes moulded fibre products, such as egg cartons, as well as tubs and lids for margarine manufacturers.

Van Leer bolstered its European presence in 1992 when it bought 4P, a printed consumer packaging company, from Unilever. The proceeds of the share issue will be mainly to build up the consumer packaging business outside Europe, especially in Asia.

Banco Popular takes cautious line

By David White in Madrid

Banco Popular Español, the smallest but most profitable of Spain's leading banking groups, raised its attributable net earnings by just over 5 per cent last year, to Pta57.48bn ($474.4m). The figure came after sharply higher provisions for loan risks in the last quarter.

The provisional result, which compared with Pta54.68bn in 1994, was slightly below some analysts' forecasts and signalled an expected tightening of margins this year.

However, Ms Sheila Garrard at Lehman Brothers in London said the figures were by no means disappointing. She said the proposed dividend increase of 10 per cent to Pta935 a share, compared with Pta850 the previous year, was larger than expected. Quarterly results were "pretty consistent" throughout the year, she said.

The bank's shares closed 0.48 per cent higher yesterday at Pta22,800, against Pta22,690 on Friday. Mr Juan Cueto, analyst at Madrid broker Ibersecurities, said the profits figure fell short of an expected rise of about 7 per cent, but attributed the difference mainly to the bank's conservative policy on provisions.

Luis Valls: comments on controlling another bank caused a stir

He suggested that a 69 per cent rise in net provisions for bad debts in the last quarter compared with the same period of 1994 was "not strictly necessary", but that the bank was willing to depress its earnings figure for the year to leave room for growth in 1996.

Net provisions, after recoveries, showed an 8.4 per cent increase for the year to Pta20.23bn, after being 12.4 per cent down at the end of the first nine months. The increase raised the group's non-performing loan cover from 74 per cent in September to 81 per cent at the year-end.

Mr Cueto said net interest revenue was slightly lower than forecast at Pta170.58bn, a 6.7 per cent increase on 1994, but this was offset by a 97 per cent increase in profits from financial operations, including exchange rate gains, to Pta6.54bn.

Consolidated earnings before tax and minority interests were 8.3 per cent up at Pta92.86bn. Operating costs rose 3.4 per cent to Pta92.93bn. Average total assets were 10.5 per cent higher at Pta3,287bn. Loans were 8.1 per cent higher at the end of the year, at Pta2,004bn, and customer funds, 5.5 per cent up at Pta2,485bn.

A recent fall in interest rates is expected to put pressure on margins at the bank this year in the face of strong competition. Chairman Mr Luis Valls caused a stir recently when he said the bank would be ready to take control of a larger bank if invited to do so by the Spanish authorities.

Alcatel's cable unit sees FFr4bn loss for year

By David Buchan in Paris

Heavy restructuring costs at Alcatel Cable will push the telecom and electricity cable-laying division of the Alcatel group in to a loss of nearly FFr4bn ($811.4m) for last year, Mr Bernard Pierre, chief executive, warned yesterday.

Mr Pierre, in an interview with La Tribune, a French business newspaper, said that in line with the policy of Mr Serge Tchuruk, the Alcatel group chairman, the cable subsidiary would load as much as possible of the restructuring costs on to its 1995 accounts.

This was in spite of the fact that the FFr3bn rationalisation operation would last until the end of 1997 and benefit the company only in 1998.

Some 20-30 of Alcatel Cable's 140 plants world-wide would be affected by lay-offs and closures, Mr Pierre forecast. The reduction in jobs could be as high as 30 per cent in submarine cables.

The restructuring had already started in Germany and France, where four and two plants, respectively, had been shut down.

Mr Pierre suggested the brunt of further cuts might come in Europe, where 30 workshops produced 2m kilometres of cable, compared with five plants in the US which turned out 8m kilometres of cable.

Mr Pierre admitted that Alcatel Cable had been taken by surprise by the speed with which the switch from copper to fibre optic cables had brought new producers into the market, and by the way the market had become more international in the wake of the privatisation of telecoms and energy utilities.

Alcatel Cable, which accounts for around 22 per cent of Alcatel group turnover, intended in its 1995 accounts to write down by around FFr1bn its recent submarine cable acquisitions and to set aside FFr3bn for restructuring.

However, the division would show a loss of "a bit less" than FFr4bn, because sales last year had risen slightly above the FFr39.3bn recorded in 1994.

Strong sales return Sepap to the black

Sepap, the Czech paper group that was the subject of a takeover battle between western investors late last year, swung decisively back to profit in 1995 after a big loss the previous year, writes Vincent Boland in Prague.

The company reported preliminary unaudited pre-tax profits of Kč1.2bn ($44.8m) for 1995, against a loss of Kč606m in 1994 caused by provisions for losses in earlier years.

The turnround resulted from a strong rise in consolidated sales to Kč7.2bn, up from Kč5bn the previous year, boosted by high pulp and paper prices.

Sepap forecast that 1996 sales would rise by 30 per cent to Kč9bn. However, Mr Tomas Sabatka, chief executive, warned that the price of its products had peaked "sooner than we expected".

He forecast that pre-tax profits for 1996 would reach Kč1.65bn. Final audited results for 1995 are expected within three months.

France seeks adviser for CIC sale

By Andrew Jack in Paris

The French government has started its search for an investment bank to advise it on the offer of shares in CIC, the banking group controlled by GAN, the state-owned insurance company.

It has also asked Mr Jean-Jacques Bonnaud, chairman of GAN, to submit shortly his proposals on how shares in the bank might be offered to a third-party investor.

The moves represent an acceleration in the deliberations over a partial sell-off of CIC, and demonstrate that the government wants to be closely involved in any share offer.

A partial sale of CIC, which is 92.6 per cent-owned by GAN, could provide financial support for the insurance group, which reported losses of FFr387m ($78.4m) for the first half of 1995.

GAN wants to recapitalise ahead of its own privatisation, and in December said it would be seeking a further FFr9bn in asset sales over the next four to five years to help with its restructuring.

Mr Bonnaud indicated last month that selling a majority stake in CIC was no longer "taboo", and that a sale could be as early as this year.

He would still prefer the purchaser to be an investor in the eventual privatisation of GAN, and to guarantee continuation of the agreement under which the insurance group sells its products through the bank.

Among the potential buyers of shares – or a controlling stake – in CIC is Société Générale, the quoted banking group, which has confirmed it is examining such a deal.

EA-Generali premium income flat

By Ian Rodger in Zurich

EA-Generali, the quoted Austrian subsidiary of the Italian insurance group, said its 1995 premium income was flat at Sch36.8bn ($3.63bn), reflecting intensified competition and a strategy of putting profit before growth.

The group, which has a 9.1 per cent stake in the Oe-Call consortium that recently won the licence to operate Austria's second GSM mobile telephone network, is responsible for Generali's insurance activities in Austria, Germany, Hungary and the Czech Republic.

Premium income in Austria grew only 1 per cent to Sch24bn. Single premium life business fell as expected after a 1994 boom and a price war in some sectors, especially motor vehicle insurance.

Mr Dietrich Karner, chief executive, said the surprise about the price war was that it was "wholly home-grown", not the result of new competitors in the market after Austria joined the European Union.

The group's German subsidiaries also achieved only a slight increase in premium income to Sch10.6bn.

Mr Karner expected to maintain the 15 per cent dividend.

Study sees strong outlook for Swiss IPOs

The supply of new equity in the Swiss market is likely to remain high this year, as more initial public offerings offset a sharp decline in conversions of bonds and warrants.

According to a study by Bank Vontobel in Zurich, the potential supply of new equity from Swiss companies' convertible bonds and warrants this year is only SFr2.25bn ($1.93bn), compared with SFr3.45bn actually issued as a result of conversions last year.

And at the end of 1995, only SFr1.65bn worth of this year's potential was in the money.

However, Vontobel regards the outlook for IPOs as very strong, because of legal and organisational improvements in the market and the positive reception given new issues last year.

The aggregate value of IPOs soared last year to SFr1.65bn, compared with SFr259m in 1994 and negligible amounts in the previous three years. The main factor was the SFr1.54bn flotation of Clariant, formerly the industrial chemicals division of health products group Sandoz.

Initial Public Offerings (1981-95)

Year	Number	SFr (m)
1981	5	100
1982	2	17
1983	2	46
1984	1	25
1985	7	154
1986	30	1,270
1987	29	1,248
1988	12	758
1989	2	174
1990	2	223
1991	2	79
1992	0	-
1993	1	60
1994	5	259
1995	3	1,654

Source: Bank Vontobel

Vontobel observes that the scheduled start-up of the national electronic stock exchange on February 23 will improve liquidity in the Swiss market, extend trading times and make pricing more transparent.

A reduction in federal stamp duties on new securities issues from 3 per cent to 2 per cent came into effect at the beginning of the year.

Investors may also be encouraged by new listing regulations to come into effect at the beginning of next year, which will impose higher accounting standards on listed companies.

A new stock exchange law, containing a takeover code, is also likely to be passed in the early part of next year.

Vontobel notes that the favourable reception by investors of Sandoz's decision to hive off Clariant and focus on core businesses will probably lead other companies to make similar moves. Ciba, another health products group, has already said it intends to float off its Mettler-Toledo weighing machines subsidiary.

"Considering the positive market receptiveness for IPO's last year, we believe that there will be more flotations in the current year than there were in 1994," the bank says.

Ian Rodger

Swiss Stock Market Equity Financing in 1995-96, Bank Vontobel & Co, Bahnhofstrasse 3, 8022 Zurich.

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AMERICAS NEWS DIGEST

Ellis Communications considers its options

Ellis Communications, the privately-owned television operator based in Atlanta, has hired Goldman Sachs to look at financial options including sale or merger. The business, valued at approximately $700m, is also considering going public.

Mr Bert Ellis, who founded the company in 1992, said: "We're looking for Goldman to help us pursue a number of strategic options. We'll make a decision in the next 60 days." But he added: "One option is to do nothing." Mr Ellis pointed to Jefferson-Pilot, the North Carolina insurance company which also owns TV stations, as a possible partner. "They could be a good fit," he said. "We know them very well, though we haven't spoken to them recently."

Mr Ellis, a former executive with Turner Broadcasting, built the business up through a series of acquisitions, the largest being the TV stations of another private Atlanta company, New Vision Communications, for $230m in 1994. His most ambitious acquisition attempt, a bid of about $1.5bn for the Multimedia group last summer, was capped by a $1.7bn offer from the newspaper company Gannett. Ellis now owns 12 TV stations, mostly in the southern US, and also the sports producer Raycom. It is expected that a number of media groups will be interested in buying parts of the business.

The value of TV stations has risen sharply in the past two years and the pace of change in the industry has quickened as a result of forthcoming deregulation. The telecommunications bill now passing through its final stages in Congress is expected to relax restrictions on media ownership. Mr Ellis said the figure of $700m for the value of his business was "a reasonable starting point". *Tony Jackson, New York*

RBC Dominion boosts expertise

RBC Dominion Securities, the investment banking arm of Royal Bank of Canada, has expanded its mining industry expertise by buying Hambros Australia's London-based equities research and trading business. Terms were not disclosed. The Hambros operation consists of three analysts and 12 sales and trading staff.

RBC Dominion has so far focused mainly on North American markets. The acquisition will broaden its horizons to the Australian and South African mining sectors, including corporate finance activities. Mr Chris Orchard, head of Hambros Equities, has been named an RBC Dominion vice-president and director. *Bernard Simon, Toronto*

SNC-Lavalin acquires Kilborn

SNC-Lavalin, Canada's biggest engineering and construction group, has bought Kilborn Holdings, a Toronto-based engineering consultancy which specialises in international mining projects.

Kilborn is owned by its 1,200 employees, who will be paid an undisclosed amount in cash or SNC-Lavalin subordinate voting shares. Kilborn has annual sales of C$125m (US$92m), of which 80 per cent come from the mining and metallurgy sector. It claims to have been involved in three-quarters of the western world's uranium and potash projects. The buy is designed to strengthen SNC's ability to handle large turnkey projects, and will expand the Montreal-based company's presence in Ontario and British Columbia. *Bernard Simon*

Sherwin-Williams in Mexico buy

Sherwin-Williams, America's biggest paintmaker, has acquired the capital stock of Productos Quimicos y Pinturas and related companies in Mexico, for an undisclosed price.

Productos Quimicos is a manufacturer and seller of automotive refinish coatings sold under the brand Excelo. The company said that management at Productos Quimicos would not be immediately changed. Productos Quimicos will operate under the direction of Sherwin-Williams Automotive Finishes Corp, a unit of Sherwin-Williams. *Reuter, Cleveland*

Navistar cuts heavy truck output

Navistar, the Chicago-based engine-maker and truck assembler, which is facing declining demand for heavy trucks, is to cut production at two of its manufacturing plants. "We're cutting production because of a slowdown for heavy duty trucks. The overall industry seems to be softening," Navistar said.

In December, Navistar forecast industry-wide demand for heavy trucks in the US and Canada to reach 175,000 in fiscal 1996, down 23.5 per cent from the record 228,800 heavy duty trucks sold in fiscal 1995.

Mr Steve Colbert, a analyst with Prudential Securities, said the current production cuts were deeper than he had anticipated. "I hope these cuts are enough, but we'll have to see how far the heavy truck market falls," he said. *Reuter, Chicago*

RJR opens consultation period

RJR Nabisco, the US food and tobacco group, has opened a 60-day period of consultation during which shareholders must decide on whether to divest the company's food activities. Shareholders have until March 12 to decide on the proposal put forward by corporate raiders and shareholders Mr Bennett LeBow and Mr Carl Icahn, who hold 4.9 per cent of the company. RJR, which has rejected the proposal, said the procedure was purely consultative. *AFX, New York*

Oil family to buy Omni Hotels from HK group

By Simon Holberton in Hong Kong and Richard Tomkins in New York

Omni Hotels, an upmarket US hotel chain, is set to change hands after an agreement by Wharf, the Hong Kong conglomerate, to sell the company to a Texas oil family for an undisclosed sum.

The deal involves the sale of nine hotels in the US, including the Omni Berkshire in New York, the Omni Parker House in Boston and the Omni Mandalay in Dallas. It also includes management contracts and franchise agreements for 26 other properties.

The hotels have been bought by TRT Holdings, a company privately held by the Rowling family of Corpus Christi, Texas. TRT already has a portfolio of hotels in the US and the purchase of the Omni chain will enable it to unite its properties under a well-known brand name.

The transaction comes at a time when the US hotel industry is enjoying a strong recovery. According to American Express Travel Management Services, occupancy levels rose by 1.8 percentage points to 66.4 per cent last year and are expected to exceed 67 per cent his year. Room rates have also risen sharply.

Wharf, which has interests in property, hotels, infrastructure and communications, bought Omni Hotels from Aer Lingus, Ireland's national airline, for US$135m in 1988. It subsequently poured considerable investment into the group to refurbish and renovate the properties it acquired.

In spite of this investment, Wharf is expected to realise a considerable profit on the transaction. According to one report, Omni changed hands for more than $500m.

Wharf is likely to earmark some of the proceeds for Hong Kong, where it has ambitious plans in cable-TV and fixed wire telecommunications – both of which are hungry for capital. It is also keen to expand its ownership of Hong Kong's container port at Kwai Chung. It already owns nearly 50 per cent of Modern Terminals, the second-biggest operator at Kwai Chung.

Wharf has been at the forefront of companies talking up the prospects of investing in China, but over the past two years it has adopted a more cautious attitude in pursuing those opportunities.

Star picks her moment to ask for the moon

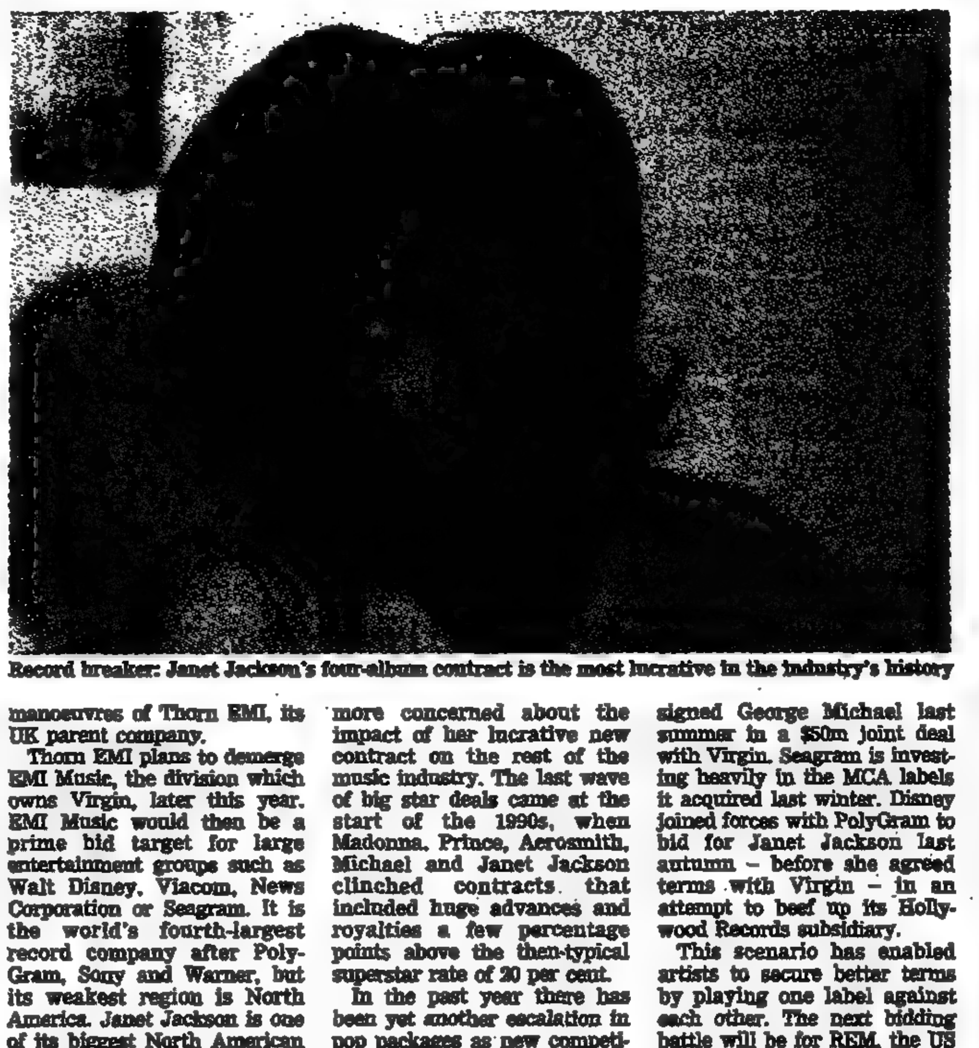
Janet Jackson's $85m deal with Virgin has infuriated rival labels, says Alice Rawsthorn

When Janet Jackson, the US pop singer, opened negotiations for her new record contract by demanding $85m for four albums, even her fans in the music business thought she was asking too much.

Ms Jackson is undoubtedly a star, but her sales have never matched those of her superstar brother, Michael, and she is not as popular in Europe as the US. However Virgin, her existing record label, agreed to meet her terms and on Friday she signed the most lucrative contract in the history of the $35bn music industry.

Virgin's rivals are furious. They fear her contract will set a precedent for other artists, plunging the music business into the same vicious cycle of escalating star deals that haunts the film industry.

"It's suicidal," said the chairman of one of the world's largest music groups. "All the other artists are going to want the same terms as Janet, or better. This deal is bad news for the entire industry."



Record breaker: Janet Jackson's four-album contract is the most lucrative in the industry's history

Virgin disagrees. Its executives claim to be confident of making money on the deal, which is believed to include payments of $35m on signing, $5m on receipt of each of four albums, an increase in Ms Jackson's royalties from 22 per cent to 24 per cent and the return of her master tapes (original recordings usually retained by the record company) 10 years after the contract ends.

Other record companies are more sceptical. They suspect that Virgin's eagerness to re-sign Janet Jackson was partly triggered by the corporate manoeuvres of Thorn EMI, its UK parent company.

Thorn EMI plans to demerge EMI Music, the division which owns Virgin, later this year. EMI Music would then be a prime bid target for large entertainment groups such as Walt Disney, Viacom, News Corporation or Seagram. It is the world's fourth-largest record company after PolyGram, Sony and Warner, but its weakest region is North America. Janet Jackson is one of its biggest North American stars and EMI would be loath to lose her so close to the demerger.

Virgin's competitors are more concerned about the impact of her lucrative new contract on the rest of the music industry. The last wave of big star deals came at the start of the 1990s, when Madonna, Prince, Aerosmith, Michael and Janet Jackson clinched contracts that included huge advances and royalties a few percentage points above the then-typical superstar rate of 20 per cent.

In the past year there has been yet another escalation in pop packages as new competitors have entered the music market. DreamWorks, co-founded by Mr David Geffen, the billionaire music mogul, signed George Michael last summer in a $50m joint deal with Virgin. Seagram is investing heavily in the MCA labels it acquired last winter. Disney joined forces with PolyGram to bid for Janet Jackson last autumn – before she agreed terms with Virgin – in an attempt to beef up its Hollywood Records subsidiary.

This scenario has enabled artists to secure better terms by playing one label against each other. The next bidding battle will be for REM, the US rock group which only has one album left on its Warner contract, and is expected to be wooed by DreamWorks, which employs a number of former Warner executives.

So far record companies have been able to accommodate their increasingly expensive stars. The global music market is buoyant (retail sales rose 16.5 per cent in 1994) and large music groups are highly profitable, with typical net margins of 18 per cent.

But there are signs that the US and UK superstars who have traditionally dominated are losing their appeal. Most industry growth is in emerging markets, notably in Asia, where indigenous artists such as Hong Kong's Jacky Cheung and China's Dadawa are increasingly popular. Taste is also becoming more chauvinistic in Europe, where many markets are dominated by dance acts which often disband after a few hits. Superstars are even losing ground in the US. The $12bn US market was flat last year as competition grew from multimedia products. Its newest stars, Hootie & the Blowfish and Green Day, have had little success elsewhere.

Janet Jackson may have signed her contract in the nick of time, just before US superstars start losing value. Virgin is gambling that it has better luck with her than Warner did with one of its most expensive artists, Prince.

Soon after signing a lucrative deal in 1992, Prince changed his name to an unpronounceable symbol and started appearing in public with "Slave" etched on his face. Last week he announced he was ending the contract by delivering three albums and if Warner did not want them, it should sue.

Directors meet to plan Apple shake-up

By Louise Kehoe in San Francisco

Directors of Apple Computer are set to meet today to draw up plans for a broad restructuring of the struggling US personal computer company amid widespread speculation that Mr Michael Spindler, chief executive, may be forced to resign.

Mr Spindler, who became chief executive two years ago after the departure of Mr John Sculley, is taking the blame for Apple's sharp decline.

Last week Apple announced that it expects to report a $68m after-tax loss from operations for the Christmas quarter, normally the busiest selling period for the PC industry.

Apple is losing ground to rivals. The company said its revenues for the last quarter increased 11 per cent from $2.83bn in the same quarter last year. However, industry-wide sales are estimated to have grown by as much as 25 per cent.

Analysts blame Apple's predicament on the lack of a clear strategy to compete with manufacturers selling PCs running Microsoft's Windows software, as well as a series of management mistakes.

Poor forecasting of demand put Apple at a disadvantage for much of last year. The company was unable to fill orders for some of its Macintosh models because it lacked critical components, which it had failed to order.

By the time Apple resolved its problems, however, demand for the Macintosh weakened. Efforts to boost demand with sharp price cuts in December came too late, according to industry analysts.

Price cuts and lower-than-expected sales are taking a toll on gross profit margins, which have dropped to about 15 per cent of sales from more than 28 per cent a year ago. Large-scale redundancies are expected and analysts predict the company may also sell or close parts of its operations.

Board members have said nothing ahead of their meeting. Their silence may, however, be significant: there has been no repeat of the vote of confidence that Mr Spindler received from the board in October.

Donnelley sets sights on broader horizons

When Stream International, a US company specialising in computer support services, announced it was investing £6m ($9.3m) and creating 500 jobs in Northern Ireland, it was a welcome boost for the Londonderry economy.

For R. R. Donnelley, parent company of Stream International, it was all part of the group's expansion drive in which Stream will be a central element.

"We are right on the cusp of explosive growth," says Mr Bill Lowe, director of corporate communication at R. R. Donnelley. "Our goal is to double our revenues [to $10bn] by 2000."

Define R. R. Donnelley traditionally as the world's largest commercial printer and one might have doubts. But both Mr Lowe and Mr Fuad Lahham, president of its European operation, are keen to present the US company in a different light.

"We are not a printing business," says Mr Lahham. "We are like a consultant – we ask how can you get this piece of information from A to Z in the most efficient manner."

The manner of its transfer could be print; but it could equally well be via CD-Rom or digital film. "People have been predicting the demise of print for a long time," says Mr Lowe. "When you line up all the arguments, what you get is that content is king – but this is a pipe-dream."

The real debate, he argues, is in distribution – how do you connect the content to the end user. "We are not committed to one form of reproduction."

Donnelley is also involved in the manipulation of information; it owns Metromail in the US, which has a database of 90m households and recently bought International Communication & Data, the USM-traded marketing services and database group in the UK.

Such databases can be sliced in many directions to target individuals, and the principles are not restricted to direct mail; for one farmers' magazine in the US with a print run of 2m a month, Donnelley prints 4,000 versions.

Commercial printing – such as Reader's Digest, catalogues, direct mail, and telephone directories – accounts for about 60 per cent of its revenues, and will remain a significant part of the business.

But Donnelley's operations are no longer confined to the US. In 1994 it bought 51 per cent of Editorial Lord Cochrane, Latin America's largest independent printing company based in Chile but with plants in Argentina and Brazil. In May it took a 25 per cent stake in Tata Press, one of India's leading printers.

Source: Company

It has operations in China and joint ventures in Poland and Russia, where there is money to be made from bringing in the latest digital technology. "The state of printing in Poland was the same as it was 25 years ago in the US," says Mr Lowe. "In Russia they were using machines that were 40 or 50 years old."

The gap between that and state-of-the-art technology can mean a fast pay-off for capital investments; in Poland, that could be as little as eight months, compared with an industry average of four years.

Mr Lowe stresses it is not a random spending spree. Criteria for investment include: that the country should be investment friendly; it should have a rising literacy rate; it should have a growing economy; the government should be committed to telecoms growth; and it should not have a mature printing industry.

Sales have risen from $4.2bn in 1992 to an estimated $6.4bn in 1995, with net income moving from $235m in 1992 to an estimated $307m.

Donnelley aims to increase return on equity, now at 14 per cent, to 16 per cent by 2000.

But it is Stream International – which staffed the help lines for the launch of Windows '95 – that is due to grow fastest, up to 20 per cent a year in revenue terms.

Stream, 80 per cent owned by Donnelley, grew out of April's merger of Donnelley's Global Software Services business, a software distribution and services business, with Corporate Software, which offered support services and training to the computer industry. It is set to grow by 20 per cent a year, and account for a growing proportion of Donnelley's sales.

"This is a business in transition," says Mr Lahham. "We are redefining the nature of software services to provide a complete information, manufacturing and support business."

Donnelley forecasts cash flow for the whole group of $700m in 1995, up from $600m the previous year. Against that is the debt taken on to fund growth; long-term debt was $1.2bn at the end of 1994, double the previous year's figure.

About 70 per cent of its 41,000 employees are shareholders, a situation Mr Lowe regards as critical to the company's success. "I visit a lot of factories and the question I get asked by everyone is 'How can we get our stock price up?' That's quite a sophisticated question for the average line employee," he says.

It is a question he hopes to hear in more places than Ireland by the end of the century.

Clare Gascoigne

Flotation on agenda for Goldman Sachs

By Norma Cohen in London and Maggie Urry in New York

Partners of Goldman Sachs, the US-based investment bank, are to meet next weekend to discuss the possible public flotation of all or part of the firm.

The meeting, to be held at the Doral Arrowwood in Rye Brook, New York, is one of a series of annual meetings held at the resort, which describes itself as "a conference centre in a country club setting."

Plans for a flotation are understood to be facing increasing resistance from junior partners, who would prefer to see a share sale delayed until they have had more time to build up equity in the firm.

The nearly $1.4bn in profits for the year ended November 1995 has encouraged the view that a delay of several years would prove beneficial to their interests, provided costs are kept under control.

Goldman Sachs said yesterday it had no comment to make about the meeting. However, officials played down the event, saying a decision on whether or not to float was not expected over the weekend. They said the meeting was an annual event when partners from around the world met to "chat about everything".

However, they admitted that the question of a flotation was bound to be raised given the intense interest in the subject.

They reiterated that the strong earnings in 1994 had taken some of the pressure to seek fresh capital off the firm, which is the oldest and largest remaining partnership on Wall Street.

It is understood that initial plans were for a flotation in Goldman Sachs' second quarter this year, which begins in March.

However, opposition by some of the junior partners and concern about structuring the deal so as to lock in those just below partnership level is seen as an obstacle to a quick flotation.

In 1986, Goldman Sachs sought fresh capital from outside investors rather than sell shares to the public as many of its rivals had done. As outside investors have been brought in, the proportion of the firm's capital coming from its general partners – those still working at the firm rather than the retired, limited partners – has fallen to well under half.

That is not a problem when profits are high. But if profits drop, as they did in 1994, the outside investors get priority and are paid a relatively high return, leaving little for the general partners.

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INTERNATIONAL COMPANIES AND FINANCE

Citic Industrial Bank registers 48% profit gain

By Tony Walker in Beijing

Citic Industrial Bank has reported a 48 per cent increase in profits for 1995, to Yn1bn ($123m) from Yn680m the previous year. The bank is controlled by the state-owned China International Trust and Investment Corporation, which announced recently that it would devote greater efforts to expanding its financial services businesses.

The Citic bank is one of China's second-tier financial institutions, but it is set to assume a higher profile under Beijing's plans to commercialise the banking sector.

China's banking is dominated by the "big four" specialised banks – Bank of China, Industrial and Commercial Bank, Agricultural Bank and Construction Bank – but banks like Citic Industrial are making inroads, especially among joint ventures and privately-owned businesses.

This is reflected in Citic Industrial's strong growth in international settlements business, which grew 63.6 per cent to $5.6bn in 1995.

Meanwhile, Mr Chang Zhenming, chairman of the newly-established Citic Securities Co, said yesterday the company planned to become China's top investment bank.

"We hope to develop all of the principal activities of an investment bank," he said. The new institution, apart from its broking and underwriting activities, will focus on mergers and acquisitions and corporate re-structuring.

Citic itself was formed in the late 1970s to help facilitate the flow of foreign investment into China and to act as a model enterprise in implementing the country's modernisation effort. It has established subsidiaries abroad, including Citic Pacific in Hong Kong and Citic Australia.

● Construction Bank has reported that profits rose 16.2 in 1995 to Yn3.38bn. Deposits stood at Yn758.9bn at the end of the year. Bank lending was up 18 per cent to Yn84.3bn.

Mr Wang Qishan, the bank's president, said the bank aimed to make a profit of Yn3.8bn in 1996. Its goal was to raise bank deposits to Yn1,000bn.

Thai shippers find state rules tough

One line has reflagged its vessels in Singapore and others may follow suit, reports Ted Bardacke

Thai shippers may be fast-growing, profitable companies, but all is not well within the industry.

The shippers have to contend with onerous regulations and the lack of a competitive tax policy. These burdens have forced the second largest shipper, Regional Container Lines, to reflag its vessels in Singapore and the largest, Precious Shipping Lines, to threaten to follow suit. The nature of the regulations also results in the companies continuing to operate old ships that hits competitiveness and eats into margins.

Thai shippers are quick to point to the benefits of increasing the use of their ships to carry the country's imports and exports, and stress that paying other ships to do so is frittering away opportunities, especially in a country such as Thailand, whose economic success is based on international trade.

The Thai authorities, however, insist that this year they will, as repeatedly promised, put shipping at the forefront of economic development.

What the companies have achieved is impressive. Four years ago, Precious had no Thai-flagged ships; now it has 35, representing 45 per cent of Thailand's sea-borne cargo capacity.

The company, specialising in transporting dry bulk cargo in small vessels, has capitalised on moving rice – Thailand is the world's second largest rice exporter and Precious's parent company, Globex, is a leading rice trader – and other goods within Asia.

It has not been easy, and such growth rates are unsustainable, says Mr Khalid Hashim, managing director of Precious. He maintains that too much time and money is spent dealing with the conditions imposed by a pre-second world war maritime law drawn-up before Thailand had a commercial shipping fleet.

Thailand's leading shipping companies

	Ships	1994 sales (Bt m)	Net profit (Bt m)	1995 sales (Bt m)	Net profit* (Bt m)
Precious Shipping Lines	35	1,524	284	1,984	450
Regional Container Lines	29	5,182	536	7,586	585
Unithai Line	19	1,606	245	2,218	†434
Thoresen Thai Agencies	18	873	84	1,226	166
Jutha Maritime	11	[illegible]	52	973	38

*W.I. Carr estimates; † Barings Securities estimate. Source: TTA

Chief among the obstacles is a regulation requiring a Thai ship to be majority-owned by Thai nationals or commercial entities. While this stipulation is no different from those faced by most other industries, for ship registration purposes, a Thai entity is defined only as something 100 per cent Thai.

Thus Siam Commercial Bank, controlled by the Thai Royal family and a leading shareholder in Precious, is not considered Thai under the maritime law because some of the bank's shares traded on the Thai Stock Exchange are owned by foreigners.

Since Precious and other shipping companies have become publicly listed, regulators have beed persuaded to be lenient on registration conditions, but the legal ambiguity concerns executives.

Then there are the tax burdies. Tax is levied on newly-purchased ships as if they were consumer goods and there is only an eight-year tax holiday for vessels with an average lifespan of 25 years.

"We aim to buy 16- to 17-year-old ships," says Mr Chandram Chandratat, chairman of Thoresen Thai Agencies, a company with 18 ships – up from just six ships two years ago. "After the tax privileges on a particular ship expire we sell it and buy another. It's the only way to compete if we want to maintain our policy of operating only ships registered under the Thai flag."

Thoresen, like Precious, moves bulk cargo around Asia and the Middle East.

Thoresen's Mr Chandram claims his company still has more than Bt600m ($23.7m) in cash left over from about Bt750m it raised from a recent public offering. The money will help to buy more ships, with an eye on capturing some of the 10 per cent annual growth in trade Thailand has averaged in recent years. Maintaining Thailand's 9.5 per cent market share of its own sea-borne trade is a significant growth opportunity; and the government would like to see that share increase to 15 per cent in the next five years.

But to do so would entail Thai ships carrying some of the containerised cargo that will increasingly dominate Thai trade.

Regional Container Lines, another specialty shipper, provides a feeder service from Thailand's main port in Bangkok – which due to its river location cannot handle huge cargo liners – to larger ships and companies calling at Singapore and other large ports in the region.

Regional moved its ships to Singapore when its tax privileges in Thailand expired and it became too difficult to find qualified labour to fulfil the requirement that 75 per cent of the crew on Thai ships be Thai. Precious, with its new ships and rapid growth, is threatening to do the same.

"Our focus will shift to Singapore or Malaysia if things don't change in the next two years," says Mr Hashim.

The Thai government is considering measures to promote the shipping industry. These include tax exemptions for crew income, earnings from selling old ships and money set aside for reinvestment; a special shipping fund to offer low interest loans for buying new ships; and operating shipyards and a new ship registration system, says Mr Chaiyos Chaimankong, secretary-general of the Thai Maritime Promotion Commission.

But implementation of these incentives is far from certain, Mr Chaiyos says. Thai politicians, he points out, often do not understand why shipping must be granted privileges that even the country's impoverished farmers do not receive.

ASIA-PACIFIC DIGEST

Strong demand for BankWest offering

Heavy public demand for shares in BankWest, the Perth-based regional bank, is likely to lead to the A$437.7m (US$326.6m) offer being closed this week – well ahead of the February 9 deadline.

A 49 per cent interest in the bank is being offered to public investors by Bank of Scotland, which acquired BankWest from the Western Australia state government for A$900m last year. Bank of Scotland agreed to sell down its 100 per cent holding to the 49 per cent level through a stock market flotation as part of that purchase agreement.

The offer for sale opened on January 8, with the 213.5m shares being offered at A$2.05 each, or A$437.7m in total. If the offer is oversubscribed, the seller has said that applicants will be allocated at least 1,000 shares, and that priority will be given to bank customers, provided they have lodged an application for preferential treatment. It has also said about 70 per cent of the shares available will go to WA-based residents and institutions. *Nikki Tait, Sydney*

Fairfax shake-out continues

The shake-out of senior executives at John Fairfax, the Australian newspaper publisher, continued yesterday with news that Mr Stuart Simson had resigned as managing director of its David Syme subsidiary, which publishes The Age newspaper in Melbourne. The resignation was said to be "for personal reasons".

Since Mr Bob Mansfield joined as the group's new managing director late last year, a number of senior staff have departed, including Mr Michael Hoy, deputy chief executive, and Mr Doug Halley, Fairfax's former finance director. Analysts have viewed the departures as a reflection of Mr Mansfield's different operating style, and of likely organisational changes within the group. *Nikki Tait*

Thai debut for TAC shares

Shares of Total Access Communications, a Thai mobile telephone network operator, will begin trading today on Thailand's new over-the-counter stock market following the transfer of about 6m TAC shares from Singapore, where the stock was initially listed late last year.

The price of TAC shares in Singapore have surged by more than 20 per cent in the past several weeks in anticipation of the over-the-counter listing, which will give Thai retail investors, who face restrictions on investing overseas, access to the company. *Ted Bardacke*

Goldmining stake placed

Leonard Green & Partners, a US-based investment partnership, has placed its 44.6 per cent stake in Australian Resources, the goldmining group with production assets mainly in Western Australia and Queensland, for A$140m. The 100.2m shares were sold to a mixture of domestic and overseas institutions at A$1.40 a share. *Nikki Tait*

BHP near Magma deal

Broken Hill Proprietary, Australia's largest resources group, said it expected to complete its A$3.2bn takeover of Magma Copper of the US this week. The deal, backed by Magma, will make BHP the world's second largest copper producer.

BHP said that, through its tender offer for Magma stock, it had acquired 97 per cent of its target's shares. Last week, BHP extended the offer timetable because of the recent snow storms on the US east coast, to give shareholders extra time to submit acceptances. *Nikki Tait*

Finance One in talks to buy Thai bank stake

By Ted Bardacke in Bangkok

Mr Pin Chakkaphak, who controls Thailand's largest non-bank financial empire, is again looking to acquire a commercial bank. His flagship company Finance One said yesterday it was in talks with Thai Danu Bank about taking an equity stake.

Trading in shares of both Finance One and Thai Danu Bank was suspended yesterday pending the outcome of what were described as "friendly" discussions. Results of those discussions are expected on January 18, a Finance One spokesman said.

Finance One officials would not reveal what percentage of Thai Danu Bank Mr Pin and his associates were seeking, but analysts believed Mr Pin would not be negotiating anything less than a stake that would give him management control. Companies controlled by Mr Pin already own about 25 per cent of Bank of Asia but despite several hostile attempts, he has been unable to secure a controlling interest.

Having built Finance One into Thailand's largest finance company in terms of assets, Mr Pin has been eager to buy a bank to add to his stable of financial institutions so that he may offer universal financial services and join the elite club of protected Thai bankers. He has been critical of the Thai government's plans to grant five new domestic banking licences, saying rules for the new banks are too strict.

Pacific Dunlop sells last big food unit

By Nikki Tait in Sydney

Pacific Dunlop, the Melbourne-based conglomerate, yesterday announced the sale of its remaining large food division unit, Pasta House, to Pillsbury, the US food group and a subsidiary of Britain's Grand Metropolitan.

The business will be sold for A$100m (US$74.6m) with a further payment possible, depending on Pasta House's earnings in the next three years.

The Australian food unit makes and distributes chilled – rather than dry – pasta and pasta sauces. This is a A$45m-a-year market, with Pasta House – selling under the Latina and Leggos' Dorato brand names – easily the market leader.

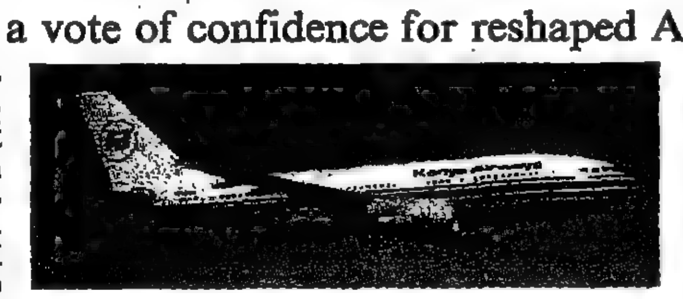
The sale of the Pasta House business effectively completes the disposal of Pacific Dunlop's food division, and means that the Melbourne company has raised around A$1.2bn in the process, a figure that goes well beyond some analysts' initial estimates.

The main buyers have been Switzerland's Nestlé, which acquired the Peters Ice Cream and Yoplait businesses for A$570m, and J. R. Simplot of the US, which bought the Edgell-Birds Eye and Herbert Adams operations for A$468m. Socomin Brands was sold to Manassen, a Sydney-based gourmet foods distributor.

Kenya airline given Dutch courage

KLM's stake is a vote of confidence for reshaped African carrier

The decision by KLM, the Dutch national carrier, to acquire a 26 per cent stake in Kenya Airways for $26m may yet help the African carrier live up to its slogan, "The Pride of Africa".



The deal will also see KLM provide one-off technical assistance valued at $3m to help Kenya Airways upgrade services such as cabin facilities and streamline check-in procedures.

The deal concludes the first phase of the privatisation of the sub-Sahara African flag carrier. It is also a vote of confidence in a restructuring plan that has turned Kenya Airways into an attractive investment after years of losses.

The airline was formed by the Kenya government in 1977, after East African Airways was grounded following the collapse of its owners, the East African Community, a common market between Kenya, Tanzania and Uganda. The new carrier took on many of the staff and assets of East African Airways.

Initially, the aim was to create an independent airline to capitalise on the growing Kenyan tourist market and the business traffic fed by the many multinationals and other organisations serving the region out of Kenya. Instead, the airline built up a reputation for poor reliability and for flying unprofitable routes which contributed to losses which hit $50m in 1992.

Yielding to pressure, particularly from international donors, the government appointed Mr Philip Ndegwa, a former governor of the Kenyan central bank as chairman of the board in 1991 and gave him a mandate to restructure and privatise the airline.

It appointed Speedwing Consulting, an airline consultancy owned by British Airways, to help with the transition and Mr Brian Davies, a former general manager at British Airways, was appointed managing director in 1992.

Losses were reduced to $30m in 1993 and in 1994 the airline recorded its first profit, $7m, which rose to $17m last year. In 1994, the government assumed responsibility for all the airline's external debt arrears of about $82m and converted $33m owed to it into equity.

This reduced long-term debt to $49m and net worth increased to $33m. Once the financial restructuring had been set in train the government decided to sell a stake to an outside investor ahead of full privatisation.

Invitations to take a 20 per cent stake were sent out to the world's leading airlines. The possibility of an investor taking an increased holding was aided by measures in the country's budget last June which lifted the ceiling on foreign ownership of locally-listed companies to 40 per cent.

Co-operation between the two carriers is to start with an adjustment of their schedules and code sharing to enable passengers to connect easily from one carrier to another between the US, Europe and Africa.

The African airline, which has a fleet of Airbus, Boeing and Fokker aircraft, is hoping the new partnership will help in upgrading its fleet. "We would look to using KLM's purchasing power to help when buying new aircraft," said a Kenyan official.

But the prospect of Nairobi airport becoming an international hub played a big part. Kenyan authorities hope KLM will help them develop Nairobi as a hub for international connections.

In the next phase of the privatisation expected to start in March, about 34 per cent of Kenya Airline's shares will be sold to the public and institutions through the Nairobi stock exchange.

It will be the biggest flotation on the bourse. About 14 per cent is likely to go to other overseas investors, particularly the growing number of African investment funds that have shown a keen interest in the issue.

The government said it wanted to retain 23 per cent of the airline with 3 per cent set aside for an employee share ownership scheme.

Joel Kibazo

Profits rise 10% to £126m but caution sounded over second-half prospects

Tomkins close to securing Gates deal

By Tim Burt

Tomkins, the UK industrial conglomerate, last night said it was close to resolving "technical issues" which have delayed its estimated $1bn (£600m) acquisition of Gates Rubber, the privately-owned US automotive and industrial components group.

The delays have been blamed largely on the process of obtaining indemnities for the Gates family, which has operated the group since 1917.

One senior official at Tomkins privately expressed frustration at the obstacles, which have been subject to intense scrutiny by US lawyers acting for the Colorado-based company.

Trustees acting for the Gates family, which owns the world's largest manufacturer of power transmission belts and industrial hoses, were said to be seeking some sort of "insurance cover" on the all-paper deal.

The two sides, however, were yesterday said to be close to agreement and contracts could be exchanged before the end of this week.

Tomkins is understood to have offered special convertible shares to the Gates family.

Although neither company would comment last night on the structure of the deal, industry analysts expect it to value Gates Rubber at more than $1bn, excluding $240m of debts which Tomkins would assume.

One analyst predicted that the UK conglomerate could issue up to 280m new shares, valuing Gates at about $1.17bn.

Details of the delays emerged as Tomkins unveiled a 10 per cent increase in first half profits. In the six months to October 28, the group saw pre-tax profits rise from £114.5m to £126.1m on reduced sales of £1.73bn (£1.79bn).

Although the figures were in line with market expectations, shares in the group fell 10p to 289p after it sounded a note of caution over second half prospects.

"Trading in some of our markets will, inevitably, be patchy as they experience less pronounced rates of growth than demonstrated earlier in the year," said Mr Greg Hutchings, executive chairman.

He also admitted that second half turnover in the US, where Tomkins makes about half of its profits, would continue to be affected by unhelpful exchange rates.

Tomkins is converting its US profits and sales at $1.58 to the pound, against $1.48 last time. In the first half, that depressed US sales by £52m.

The group, however, enjoyed higher margins in most divisions despite sluggish demand for some of its products in the US.

Fully diluted earnings per share, meanwhile, rose from 6.59p to 7.21p and the group declared an increased interim dividend of 2.7p, up from 2.43p.

The company yesterday hinted that it could use cash reserves of up to £140m to make bolt-on acquisitions in its core manufacturing areas.

Malcolm Watson

Greg Hutchings: milling and baking is an area of increasing potential as the first rise in bread prices for 14 years was achieved

C&W can look overseas for chief

By Alan Cane

The government has refused to allow Cable and Wireless, the telecommunications group, to appoint non-Britons to both the roles of chairman and chief executive.

Mr Brian Smith, chairman, told an extraordinary general meeting that the Department of Trade and Industry had denied a request from C&W for both positions to be open to all-comers but had agreed that one of the positions could be held by a foreigner. The EGM approved a change in the company's articles to allow one of the positions to be held by a non-Briton.

Mr Smith said the company was within a few weeks of agreeing severance terms with Lord Young of Graffham, its former chairman, and Mr James Ross, the former chief executive.

The two men were asked to leave the company in November after disagreements became public and threatened the company's equilibrium.

The EGM, which was attended by only a handful of shareholders, had been called to agree changes to the rule so that Mr Rod Olsen, the finance director from New Zealand, could take the post of acting chief executive while the group carried out a worldwide search for a permanent head.

The nationality rules are a throwback to the days when the company was a department of state with responsibility for the government's communications overseas.

Similar rules apply to British Telecommunications. Both Sir Iain Vallance, chairman, and Sir Peter Bonfield, chief executive, are British.

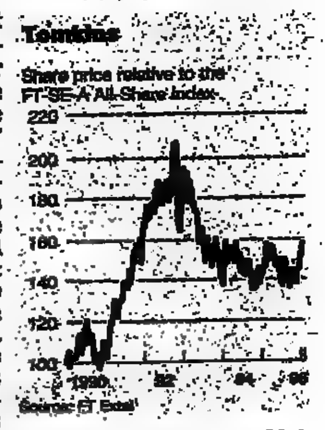
The DTI said yesterday the nationality rules had been put in place when C&W was privatised as part of a package of measures associated with the government's "golden" or controlling share in the company. The rules had been designed in the national interest but had been relaxed to allow C&W to attract the best candidate for chief executive.

Mr Smith said there was a "long short-list" of up to eight candidates for the chief executive's job.

Terms of the settlements agreed with Lord Young and Mr Ross could be announced by the end of the month, he said, although C&W managers think February more likely.

LEX COMMENT

Tomkins



Tomkins has long felt unloved by the stock market, and yesterday's 3½ per cent drop in the share price cannot have cheered the company. But Tomkins' complaint, that it is undervalued because conglomerates are out of fashion, is unconvincing. True, the shares have underperformed badly in recent years. But it is more likely that the shares were overvalued in 1992 than undervalued now. At 14 to 15 times this year's profits, the share price is bang in line with the market. And with earnings growth unlikely to beat the market average, it would be difficult to justify any premium.

On the contrary, the big question for investors is how growth is going to be sustained. Sales dropped 3 per cent in the first half compared with the same period the previous year – notably thanks to big problems at Murray, which makes lawnmowers and bicycles in the US. Of course, to deliver 9 per cent earnings growth against this background underlines Tomkins' skill at squeezing profits out of low-margin businesses like food manufacturing. But to retain its rating in line with, say, BTR – which is much less dependent on the mature markets of the UK and the US – it has to generate turnover growth as well. This is why investors were disappointed yesterday not to hear the details of Tomkins' next big deal – the planned acquisition of Gates, a US rubber business. Doubtless this news is on the way. But unless Tomkins can extract a dazzling performance from Gates, hopes of a significant re-rating look as distant as ever.

DIGEST

Under pressure Forte splits jobs

Sir Rocco Forte yesterday bowed to pressure from shareholders and split his role as chief executive and chairman of Forte, the hotels group fighting a £3.83bn ($5.9bn) hostile bid from Granada. Sir Anthony Tennant, Forte's 65-year-old deputy chairman, will next month become non-executive chairman if the group escapes the bid, which closes next Tuesday.

Some institutions said the move was "too little, too late" and that Sir Rocco had kept the wrong job. "It's a move in the right direction," said one shareholder, "but we're slightly surprised to see it's not the other way round."

Sir Rocco admitted he had been "influenced by the opinion expressed to me by a number of our shareholders that they do not think it appropriate, in a major listed company such as Forte, for the same individual to hold both positions".

Institutions, which had lobbied for the roles to be split in line with Cadbury committee corporate governance recommendations, said the appointment would not have much impact on the way Forte was run since Sir Anthony had been deputy chairman since 1992.

However, Sir Anthony, former chairman of Guinness, the drinks group, and Grand Metropolitan, the drinks and food group, said his appointment would give him new powers. "My job will be to run the board and to make sure the company delivers its promises to shareholders."

Lex, Page 20 *Scheherazade Daneshkhu and David Blackwell*

Fidelity Brokerage plans buy

Fidelity Brokerage, the US discount broker, plans to buy the futures, options and bond clearing business put up for sale by Hambros, the merchant banking group. Fidelity has agreed to an exclusive period of negotiation with Hambros until March 1, but has already begun the process of conducting accounting and legal due diligence.

An exceptional charge of £6.6m ($10m) for the costs of pulling out of equity clearing contributed to Hambros' interim pre-tax loss of £7.7m. The group is now poised to complete its withdrawal from clearing with the disposal of the rest of the business to Fidelity.

Mr Dave Plucinsky, president of Fidelity Brokerage Services, said Hambro Clearing had broken even during the last six months. *George Graham*

Tarmac/Wimpey swap 'soon'

Both sides in the UK construction industry's biggest asset swap insisted that the £300m-plus exchange worth more than £300m ($462m) would be completed over the next month. Tarmac, which plans to exchange its housebuilding arm for George Wimpey's contracting and quarrying businesses, has admitted that the mining side – worth about £15m – might not form part of the deal.

However, it added that due diligence was expected to be completed within the next two weeks with approval expected shortly afterwards.

Tarmac does not have experience in mining, and company sources said it would be no surprise to see that element drop out. Wimpey refused to be drawn on the specifics of the swap but said the timing of the deal was on track.

Peter John

Charles Baynes $8m purchase

Charles Baynes, the engineering and distribution group, has paid $8m for Amsco, a US-based, privately-owned manufacturer of valves for the chemical and pharmaceutical industries. The deal includes debt assumed and payment was made using existing medium-term facilities.

The company said that Amsco represents a further strategic step in the development of its valve division, which also operates in the UK, France, Germany, Belgium and Italy.

For the year to December 31, Amsco is estimated to have made an operating profit of $1.4m on turnover of $30m.

Sophy Buckley

PolyGram buys UK CD manufacturer

By Alice Rawsthorn

PolyGram, the world's largest music group, is expanding its UK interests by buying PDO, a compact disc production plant in Blackburn, Lancashire.

PDO, which employs 300 people, is one of the UK's largest CD production plants, manufacturing 60m audio and interactive discs each year.

PolyGram, whose recording artists include U2, Elton John and PJ Harvey, is acquiring the plant from Philips, the Dutch electronics group which owns 75 per cent of its equity.

The acquisition will enable PolyGram's UK record labels, such as Island and London, to source compact discs faster. At present the UK labels import most of their CDs from PolyGram's plants in Germany or France, and sometimes face delays while they await delivery.

Speed is particularly important in the fast-changing singles market.

Canada link for Coda as US demand boosts results

By Paul Taylor

Strong sales of new generation open, client/server software, particularly in the US, helped Coda, the Harrogate-based accountancy software group, report sharply higher revenues and a return to full-year profits yesterday.

At the same time the group, which disappointed investors a year ago when it reported its first loss for 15 years and passed its dividend, announced a joint development programme with Cognos, a Canada-based software group specialising in reporting tools.

Under the agreement Cognos' powerful business intelligence tools will be built into Coda's international accounting system software, making it faster and easier for users to obtain on-screen financial and management information.

As expected, Coda reported pre-tax profits of £1.03m ($1.6m) for the year to October 31, compared with losses of £7.99m which included £4.99m of esop costs. Operating profits of £909,000 compared with £3.15m losses. The turnround was achieved despite substantial research and development spending of £6.3m and marketing expenditure of £2.3m.

Turnover increased by 40 per cent to £32.8m (£23.4m) including £13.7m attributed to client/server software sales – a fourfold increase. Revenues from older software designed for proprietary systems held up better than expected at £19.1m.

Commenting on the results, Mr Rodney Potts, chairman, said: "Our return to profitability reflects rapidly building revenues from the open, client/server version of Coda-Financials and tight financial control of the cost base of our proprietary products."

Earnings per share were 2.5p against losses of 27.7p, but the group is not paying a dividend, focusing instead on investing for growth.

Despite higher R&D spending of about £7m and marketing expenditure of £2.8m pre-tax profits could increase to a still depressed £2m this year.

M&G loses chief operating officer after a 'clash of personalities'

By George Graham, Banking Correspondent

M&G Group, a leading unit trust and fund management company, shocked the City yesterday by announcing the departure of its chief operating officer after a "clash of personalities". Mr Anthony Shearer, 47, had been widely regarded as the likely heir to Mr David Morgan as M&G's managing director. He resigned from the board yesterday with immediate effect.

Both M&G and Mr Shearer insisted there had been no argument of substance. "It was not a question of any disagreement over strategy or orientation. It was more a question of style," said Sir David Money-Coutts, M&G's non-executive chairman.

However Mr Shearer's departure creates an apparent leadership vacuum in the not too distant future. Both stockbrokers and the independent financial advisers who are an important outlet for M&G's products said yesterday they were shocked.

When Mr Morgan, 61, was appointed in 1993 he was generally viewed as an interim replacement for Mr Paddy Linaker, M&G's long-serving managing director. Besides Mr Shearer, no obvious candidate has emerged to replace him.

Under M&G's unwritten rules Sir David would normally retire as chairman next January. Yesterday, however, he said that that would now depend on discussions with Mr Morgan.

Sir David said M&G had failed to define clearly enough the respective roles of the chief operating officer and the managing director when Mr Shearer and Mr Morgan were appointed in 1993. He said the clash had been "simmering for quite a while".

M&G also announced yesterday that another of its top managers, Mr Alan Oddie, would be leaving the board at the end of March. Mr Oddie, 45, has been M&G's business development director since 1993, but has had little to do since the suspension of talks on the formation of a joint venture with Hong Kong's Dah Sing Financial Holdings, which had been his principal task.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Coda	Yr to Oct 31	32.8	(23.4)	1.03	(7.99L♠)	2.5	(27.7L)	nil	-	nil	nil	0.5
Elan ♣	9 mths to Jan 5	94.6	(99.2)	38.7	(31.3)	106	(87)	-	-	-	-	-
Intelek	6 mths to Oct 31	13.8	(7.47)	0.526	(0.035L▼)	0.77	(0.09)	.03	Apr 1	0.25	-	0.75
PWS	Yr to Sept 30	12.1	(12.8)	0.728♠	(0.971L♠)	1.5	(3L)	0.25	Apr 9	0.1	0.5	0.6
Tomkins	6 mths to Oct 28	1,734	(1,791)	126.1	(114.5)	7.25	(6.84)	2.7	Apr 12	2.43	-	8.85

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
First Spanish	6 mths to Nov 30	95.1	(84.4)	0.003	(0.006L)	0.03	(0.07L)	-	-	-	-	0.25
Second Consold	Yr to Oct 31	63.5	(53.77‡)	0.475	(1.4)	1.39	(4.1)	1.4	Feb 24	2.3	1.4	3.8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ▼After exceptional credit. ‡Adjusted for capital repayments. ♣Irish currency.

صحكذا من الاصل

COMMODITIES AND AGRICULTURE

EU farm incomes 'reach 20-year high'

By Alison Maitland

Farmers in the European Union are enjoying their highest incomes for 20 years as they continue to benefit from reforms of the Common Agricultural Policy, according to Eurostat, the EU's statistical office.

Agricultural income in the EU rose by an average 2.6 per cent in real terms last year, with rises of more than 10 per cent in Denmark, Sweden and the UK, provisional figures show.

Swedish incomes bounced back from a 21 per cent fall in 1994, rising 26 per cent as subsidies shot up by 150 per cent when the country joined the EU.

The UK, where incomes rose 16.6 per cent, benefited from an increase in agricultural prices thanks largely to the continued devaluation of sterling.

Britain also recorded an increase for the fourth consecutive year, as did Ireland and Luxembourg.

Eurostat said the overall rise appeared to result from higher direct payments to farmers to compensate them for progressive cuts in support prices for cereals and beef. Subsidies were up 10.2 per cent in real terms, reflecting higher compensation and the large payments made to Austria, Finland and Sweden on joining the EU last year.

An increase in market prices had also lifted incomes, Eurostat said. Markets have partly gained strength on the back of big reductions in intervention stocks – food mountains – and a fall in production in previous years, thanks to policies such as set-aside, which pays farmers to leave land uncultivated. All these policies were set in train by the 1992 MacSharry reforms.

Other factors supporting incomes were a modest increase in output last year by livestock and arable farmers – the set-aside rate fell last year – and a decline in the agricultural labour force of about 2 per cent.

Last year's rise in incomes followed an 8.4 per cent increase for the then 12-member EU in 1994.

"Agricultural income is therefore estimated to have reached its highest level for 20 years," said Eurostat. "This positive trend would appear to apply to a clear majority of the member states."

Six countries – Belgium, Finland, Spain, Portugal, the Netherlands and Greece – recorded falls last year. The declines of 9.8 per cent in Belgium and 2 per cent in the Netherlands were mainly due to lower prices for vegetables, potatoes and cattle.

Spain, down 4.8 per cent, suffered from a 44 per cent drop in its cereals production following a severe drought. In Finland, a steep rise in compensatory subsidies failed fully to cover the effects of a fall in prices, leaving incomes 7.5 per cent lower.

Eurostat will publish its final incomes data in March.

A study in agricultural semantics

Terms like surplus, shortage and reserve seem to mean different things to the EU and the US

When does a strategic reserve become a surplus? At what point does a surplus become an export opportunity?

Conversely, when does a potential shortage become either an embarrassment or a desirable objective?

Answers to these questions appear to depend on whether one is a politician who lives to the east or to the west of the Atlantic. In this age of instant information all read the same global data on supply and demand and all have access to demographic trends. That the interpretation varies according to location is, presumably, because of two main factors – significant difference in interpretation and/or the of the General Agreement on Tariffs and Trade settlement.

The facts as reported indicate that world supplies of grain are at the lowest levels for at least 23 years. The United Nations' Food and Agriculture Organisation forecasts that stocks will be only 14 or 15 per cent of world consumption at the end of the current crop year. That would be a reduction of 3 or 4 percentage points on last year and down 6 or 7 per cent points over a three-year period. Further, the FAO says that to prevent a further

FARMER'S VIEWPOINT

By David Richardson

fall, putting global food security at risk, it will be necessary to increase output by about 4 per cent in 1996-97.

Meanwhile, European Union intervention stocks have all but disappeared. Indeed, the European Commission recently imposed a tax on exports of grain in order to discourage sales to third countries and hold sufficient within the EU to feed livestock. The measure could be said to have succeeded and prices on European markets have dropped by £5 a tonne ex-farm since Christmas, having been above the world price for some weeks previously. But, uniquely in the world at present, 10 per cent of the EU's best cereal-growing land will still be set-aside from production this year to avoid the possibility of re-creating a surplus.

When I questioned a senior EU official about this apparent anomaly a few weeks ago he replied that "the community [EU] would never again contemplate the possibility of storing vast mountains of surplus food"; and he believed that "set-aside would have a role to play in maintaining that situation for the foreseeable future".

He went on to assure me that there was no possibility of a food shortage in Europe and to remind me of the restrictions on subsidised exports of any surpluses that did occur, imposed on the EU by the Gatt settlement.

I was not at all surprised, therefore, at the cautious approach to agricultural policy and production presented by EU agriculture commissioner Mr Franz Fischler at the Oxford Farming Conference this month. Indeed, he seemed to spend most of his time looking backwards with some pride to what he clearly believed was a successful reform of the CAP in 1992. He somewhat reluctantly conceded that further reform would be required "towards the end of the century", but added: "We should not wait for the surpluses to re-appear and then take difficult restrictive measures on support and exports".

In other words, his theme was one of continued central control with the additional proviso that production-based aids would increasingly give way to payments for environment-friendly farming methods.

In complete contrast and on the same platform, Mr Eugene Moos, an under-secretary at the US Department of Agriculture, described his country's response to the world food situation. "Agricultural trade is the path of opportunity for all of us", he said. "The global stocks-to-use ratio is expected to fall to around 11 per cent [3 or 4 per cent below the FAO estimate], the lowest level on record in the USDA database."

"We are", said Mr Moos, "moving away from a world surplus situation and into an era of growing demand. . . we believe it is critical that farmers should not only be allowed, but encouraged, to respond to current market signals as reflected in high grain prices. The European Union has imposed an export tax on wheat [subsequently on barley as well] to satisfy domestic demand. We in the United States have no intention of doing so. . . We have the ability to respond to world food needs and to supply food aid."

Needless to say, the positive, expansive, message for American farmers was one that EU farmers, especially at the Oxford Conference, would have liked to have been intended for them. Instead, they had to contemplate the continuation of restrictions on production and negative policies in the face of increasing global demand for their produce. Furthermore, as EU aid declines – also part of Mr Fischler's plan for the future – they foresee the prospect of having to compete with US farmers for world markets with one hand tied behind their backs.

Who is right? Have we come to the end of the era of surplus food for good? Shall we see them building up again in a few years? Or will the future be characterised by consistent shortages? Time alone will tell. Meanwhile, the UK farmers who listened to the arguments and wished the shortage theory to be the correct one put some of the blame for the relatively negative approach of their political masters to semantics. That, and the undoubted fact that American farmers got a much better deal out of the Gatt settlement than those in the EU.

Oil rig operators thrive on technology and low taxes

By Robert Corzine

Technological advances and lower taxes should continue to underpin rising offshore drilling activity even if oil prices stay stable, according to Global Marine, the Houston Texas-based drilling contractor.

The company yesterday said lower costs associated with new technology and tax incentives offered by governments keen to develop oil and gas reserves helped to make 1995 the best year for offshore rig operators since the early 1980s.

Mr C. Russell Luigs, the chairman of Global Marine, said oil prices were no longer the main factor behind demand for rigs. He predicted that strong demand would continue over the next few years even if prices stayed within the range of recent years.

The improving economics of the industry meant that "at the end of last year there were only 50 surplus drilling rigs worldwide", he said. That compares with a 350 idle rigs in 1985. Day rates had risen substantially, the company said. The day rates for two of its semi-submersible rigs operating in the North Sea had jumped within months from $30,000 a day to $75,000-$80,000 a day.

But even so overall rates remain well below the levels that would justify large-scale new construction, say company executives. Last year's rates were just under half the level that would be needed to justify new construction. But Mr Luigs said the industry as a whole was "marginally profitable on balance now".

He noted that there has been a fundamental change in the relationship between natural gas prices and rig demand in the US Gulf of Mexico, where "just-in-time" delivery concepts took hold in the offshore industry.

In the past US gas prices would have determined the number of rigs operating in the area, he said. But oil companies were now applying measures to minimise their offshore reserves. The result is that reserve to production ratios have halved to around five years, with annual gas production running at 15-20 per cent of the total proven reserves in the US Gulf of Mexico.

"The just-in-time factor means that the US gas price will be whatever they have to be to keep the rigs operating in the area."

Indonesia extends PT Inco contract

By Manuela Saragosa in Jakarta

PT Inco, the Canadian nickel mining company's 58.7 per cent-owned Indonesian subsidiary, yesterday signed a 30-year extension to its work contract with the Indonesian government.

The new contract commits the company to go ahead with an already-announced plan to increase production capacity at it Indonesian operations on the island of Sulawesi by 50 per cent to about 150m lb of nickel in matte a year.

It also commits it to look into developing two other deposits at Bahadopi and Pomalla, both in Sulawesi. However, Mr Martin Robinson, vice president of finance at PT Inco, stressed that there is "no dollar commitment" to do so.

"We're pretty confident [the deposits] are significant but it is too early to say if they are economically and technically feasible," he said.

Inco's previous mining contract, agreed in 1968, was set to expire in 2008 but under the new contract Inco has agreed with the Indonesian government to have its mining rights extended until 2025 with provisions for a further extension.

The extended contract updates some of the tax breaks previously allowed by the Indonesian government, particularly those related to withholding tax.

Inco said the 50 per cent increase in production capacity planned at the company's facilities in Soroako, Sulawesi, was expected to be completed in 1998 at a capital cost of US$580m.

The expansion, which will include the addition of a fourth smelting line and the construction of an additional hydroelectric facility, will be financed through a combination of debt and internally-generated funds.

More frosts hit Mexican coffee areas

Two nights of frost have damaged flowering for the 1996-97 coffee crop around Coatepec in Mexico's Veracruz state, an official with the Confederation of Mexican Coffee Growers said, yesterday, reports Reuters from Mexico City.

"Last night and the previous night, there were frosts in Coatepec," Mr Alfredo Moises Ceja, a member of the national executive committee of Mexico's top growers' association said.

Freezing temperatures hit coffee zones in the states of Puebla and Veracruz last week, but Coatepec, with coffee growing at around 1,200m, was not affected then.

Coatepec is one of the principle growing zones of Veracruz, which competes with Puebla state as the number two growing state after Chiapas in the south.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1605-6	1597-8
Previous	1615-17	1608-9
High/low	1601/1598	1605/1592
AM Official	1599-600	1591-92
Kerb close		1598-99
Open int.	231,918	
Total daily turnover	104,895	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1400-10	1440-45
Previous	1400-10	1445-50
High/low	1400	1445/1440
AM Official	1395-98	1440-45
Kerb close		1440/50
Open int.	5,034	
Total daily turnover	2,994	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	690-91	697-7.5
Previous	692-93	695-98
High/low	683/682	688/670
AM Official	682-83	690-91
Kerb close		686-7
Open int.	32,600	
Total daily turnover	11,537	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7475-80	7585-90
Previous	7580-90	7670-80
High/low	7490/7480	7650/7560
AM Official	7450-90	7600-605
Kerb close		7590-95
Open int.	41,437	
Total daily turnover	11,775	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6250-55	6280-90
Previous	6260-70	6290-95
High/low	6265/6260	6310/6260
AM Official	6265-70	6295-300
Kerb close		6290-70
Open int.	15,202	
Total daily turnover	3,516	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1011-12	1033.5-34.5
Previous	1010.5-11.5	1033-35
High/low	1004/1003.5	1036/1034
AM Official	1003.5-4.0	1026.5-27.0
Kerb close		1033-4
Open int.	74,621	
Total daily turnover	22,091	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2523-25	2481-82
Previous	2567-72	2507-8
High/low	2580	2483/2459
AM Official	2548-50	2466-67
Kerb close		2466-70
Open int.	171,983	
Total daily turnover	100,559	

■ LME AM Official £/$ rate: 1.5483

LME Closing £/$ rate: 1.5450

Spot: 1.5462 3 mths: 1.5429 6 mths: 1.5396 9 mths: 1.5360

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

[illegible]	[illegible]	[illegible]	[illegible]

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int.
Jan	395.7	-0.5	-	-	6	4
Feb	396.1	-0.6	397.2	[illegible]	[illegible]	87,327
Apr	397.7	-2.4	399.3	395.5	4,371	25,359
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int.
Jan	122.40	+0.75	122.00	122.00	5	151
Mar	123.00	+0.55	123.75	123.50	41	2,542
May	125.90	+0.65	125.90	125.60	[illegible]	3,341
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Close	Prev
BFI	[illegible]	[illegible]

FUTURES DATA

All futures data supplied by CMS.

Tea

There was landed improved and more widespread competition reports the Tea Brokers Association. [illegible]

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int.
Mar	892	+2	895	883	1,007	32,653
May	916	+1	918	905	1,215	15,482
Jul	936	-	937	929	571	8,190
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COCOA (ICCO) (SDR's/tonne)

	Price	Prev. day
Jan 12	[illegible]	[illegible]
Daily	[illegible]	[illegible]

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COFFEE (ICO) (US cents/pound)

	Price	Prev. day
Jan 12	[illegible]	[illegible]
Comp. daily	[illegible]	[illegible]
15 day average	[illegible]	[illegible]

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jan 15	Jan 12	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

■ CRB Futures (Base: 1967=100)

Jan 12	Jan 11	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

■ GSCI Spot (Base: 1970=100)

Jan 12	Jan 11	month ago	year ago
[illegible]	[illegible]	[illegible]	[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int.
Feb	66.275	+0.500	66.475	66.000	4,614	27,418
Apr	66.425	+0.125	66.750	66.400	2,532	19,291
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Feb	Apr	Feb	Apr
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
■ COPPER (Grade A) LME	Feb	Apr	Feb	Apr
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
2600	20	31	94	170
■ COFFEE LCE	Mar	May	Mar	May
1500	277	180	7	64
1550	[illegible]	-	13	-
1600	182	-	22	-
■ COCOA LCE	Mar	May	Mar	May
850	47	110	5	10
875	30	97	13	17
900	17	78	25	27
■ BRENT CRUDE IPE	Feb	Mar	Feb	Mar
1700	-	37	-	43
1750	-	18	-	-
1800	-	9	-	110

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel/Mar)

		+or-
Dubai	$16.11-6.19w	+0.06
Brent Blend (dated)	$17.50-7.52	-0.08
Brent Blend (Mar)	$16.94-6.98	+0.02
W.T.I.	$18.03-8.05w	+0.075

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$166-168	
Gas Oil	$159-160	-3
Heavy Fuel Oil	$103-105	-2
Naphtha	$170-172	-2
Jet fuel	$165-166	-5
Diesel	$165-166	-1

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

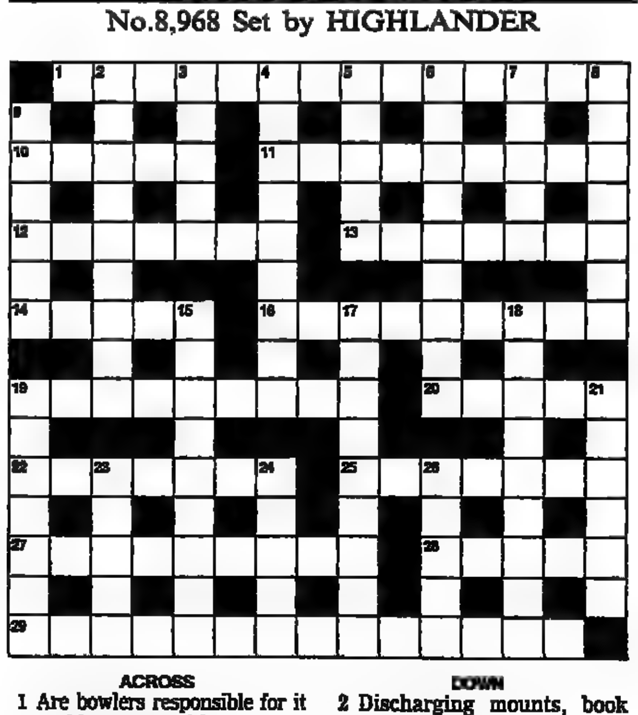
Gold (per troy oz)♣	$395.00	-4.20
Silver (per troy oz)♣	541.5c	-9.0
Platinum (per troy oz.)	$412.75	-4.00
Palladium (per troy oz.)	$129.25	+0.75
Copper	125.0c	
Lead (US prod.)	41.75c	
Tin (Kuala Lumpur)	15.81m	-0.11
Tin (New York)	298.5c	-2.0
Cattle (live weight)†	115.97p	-4.88
Sheep (live weight)†♠	119.76p	+0.13
Pigs (live weight)†	98.47p	-3.06
Lon. day sugar (raw)	$317.7	+4.2
Lon. day sugar (wte)	$387.0	+3.9
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	151.0z	
Wheat (US Dark North)	Unq	
Rubber (Feb)♥	105.50p	
Rubber (Mar)♥	105.50p	
Rubber (KL RSS No1)	398.50m	+0.50
Coconut Oil (Phil)§	$687.5y	+7.5
Palm Oil (Malay.)§	$532.5y	+2.5
Copra (Phil)§	[illegible]	+10
Soyabeans (US)	209.0	+2.0
Cotton Outlook'A' Index	85.70	
Wooltops (64s Super)	450p	

£ per tonne unless otherwise stated. p-pence/kg. c-cents/lb. [illegible]

JOTTER PAD

CROSSWORD

No.8,968 Set by HIGHLANDER



ACROSS

1 Are bowlers responsible for it making too much? (14)
10 Unhappy about the French assortment of vegetables (5)
11 Power plant ruins a green hill (9)
12 Our name appears wrongly in entrance (7)
13 Start to stand firm and push for means of punishment (7)
14 A lot of people went by car (5)
16 Held by police, drunk on duty (sic) (2,7)
19 Neglecting to accept brief to appear for trial (7,2)
20 Aggressive youth tips over old boy and young lad (5)
22 Kennedy is one for warm and dry wine (7)
25 Partly coincide deliveries on one circuit (7)
27 Investigate if I'd verbally given evidence (9)
28 Girls reported DNA units (5)
29 Supplier of plants from Denmark with greater hybridisation (6,8)

DOWN

2 Discharging mounts, book small boats (9)
3 Went on horse to old American show (5)
4 Digger ran out and about (9)
5 Wrong newspaperman given lift by ex-leader's spouse (5)
6 Interestingly odd, not all there, and furtive (9)
7 Put in the ground rent incorrectly on one (5)
8 Harbour extremely risky place for children (7)
9 Big nurse from Belgian resort (6)
15 Illustrate the point and impose it anyhow (9)
17 High Church without senior trophy winner last time (9)
18 Showing poise, all things considered (2,7)
19 Enthusiast pronounced cat a figment of the imagination (7)
21 Stand up to work, then sit (6)
23 One getting up about title going up (5)
24 Lean on top of glass object (5)
26 Hunting dog drops black bird (5)

Solution to Saturday's prize puzzle on Saturday January 27.
Solution to yesterday's prize puzzle on Monday January 29.

INTERNATIONAL CAPITAL MARKETS

UK gilts shrug off output prices data

By Martin Brice

UK government bonds shrugged off data that showed the annual rate of output price increase unchanged at 4.3 per cent in December, against some expectations of a fall to 4.1 per cent.

Headline manufacturing output prices rose by 0.8 per cent in December, but changes in excise duty announced in the November Budget were estimated to have increased the index by 0.7 per cent in the month.

Input prices rose by 1.6 per cent in December, but Mr Don Smith, UK economist at HSBC Markets, said that upward pressure on input prices had been caused by a surge in oil prices and pointed out that in the past few days oil prices had plummeted.

"If this is sustained, input prices will fall back. These figures increase the weight of argument for a rate cut," said Mr Smith.

On Liffe the March long gilt future closed at 111$\frac{1}{8}$, up $\frac{3}{4}$ points.

Mr Andrew Roberts, at UBS, said that the future had recently been meeting firm resistance at 111, but he added that good employment, earnings and public sector borrowing requirement figures on Wednesday could see it hold above the 111 level.

A figure of around £1bn is forecast for the PSBR, but the increase in interest payments on stripped gilts may push it over expectations.

HSBC Markets expects a PSBR of £1.1bn, including interest payments of £2bn, up from £0.9bn the year before.

The 10-year yield spread over Germany narrowed from 170 basis points to 166 points.

The yield on the two-year gilt fell by 3 basis points to yield 6.35 per cent, while the yield on the 8¾ per cent of 2005 and the 8¾ per cent of 2017 each fell 1 basis point, to yield 7.22 per cent and 7.79 per cent respectively.

GOVERNMENT BONDS

■ German government bonds continued their recent rising trend as investors were encouraged by comments from Bundesbank Council member Mr Hans-Juergen Koebnick, who was reported to have said there was room for further cuts in the discount rate.

However, trading volumes were low due to the lack of a strong lead from the US, where the markets were closed to observe Martin Luther King Day.

The yield on benchmark two-year paper fell by 5 basis points to 3.93 per cent, while the four-year yield fell by 6 basis points to 4.48 per cent and the 10-year by 3 points to 5.88 per cent.

On Liffe the March 10-year bund future closed at 100.54, up 0.29 points on the day. The yield spread of 10-year bonds over US Treasuries tightened in from 8 basis points to 6 points.

■ French government bonds took heart from the positive tone in bunds, and on Matif the March 10-year future settled at 121.76, up 0.10 points.

In the cash market, the yield on two-year paper moved in by 6 basis points while on 5-year paper it narrowed by 3 points and on 10-year came in by 2 points to settle at 6.48 per cent. The 10-year spread over Germany was unchanged at 64 basis points.

■ Italian government bonds opened firmer due to bund strength and on Liffe the March future briefly breached the resistance level of 110.50 but closed at 110.21, up 0.34 on the day.

The spread of 10-year bonds over Germany was static at 467 basis points. Other high-yielding bonds outperformed bunds, with the spread over Germany on Swedish 10-year bonds moving in from 229 basis points to 227 points, and on Spanish bonds from 356 to 353 points.

Trust acts on share discount to asset value

By Antonia Sharpe

The board of the BZW Commodities Trust, launched in late 1994 when an upswing in commodities prices fanned investor interest in the sector, is taking action to remove what it calls the "unacceptable discount" of the share price to the trust's net asset value.

The discount on the ordinary shares compared with the NAV emerged shortly after the launch in October 1994, when the shares, with warrants attached on a one-for-five basis, were issued at 100p each. Yesterday, the shares were trading at about 98½p, compared with an NAV, diluted for the exercise of the warrants, of about 113p.

Mr Michael Connors, a managing director of BZW Asset Management, said there was no particular reason for the discount but he noted that discounts had become entrenched in UK investment trusts.

At the annual general meeting on February 29, shareholders in the £77m trust will be asked to approve a provision to shorten the 10-year life of the company by five years.

This would leave four years to run unless shareholders pass a resolution for the continuance of the company at the AGM in 2000. In view of this, the terms of the warrants will also be amended.

"We believe that the possibility of an earlier realisation of full asset value for investors will make the shares considerably more attractive and will thus exert pressure to reduce the prevailing discount," said Mr Henny de Ruiter, the trust's chairman.

He added that if an unacceptable discount still existed in 1997, the board would consider additional measures, such as making the company open-ended.

Russian bank cuts cost of issuance

By Antonia Sharpe

Rossiysky Kredit Bank (RKB), which last month became the first Russian commercial bank to borrow on western capital markets, is set to raise a further $28.7m today through a second offering of short-dated zero-coupon notes.

Banque Indosuez, which arranged RKB's first issue of $33.3m, said the good reception given to that deal had enabled RKB to reduce the interest margin on the second offering.

On the first offering, RKB paid about 500 basis points over the London interbank offered rate but expects to pay an average of about 400 basis points over this time. This means the average annualised yield will be 9.6 per cent, compared with just under 11 per cent on the first offering.

Both issues, made under a $100m programme arranged for RKB by Indosuez, have a life of about three months. They are in the form of fiduciary notes and are fully collateralised by bonds issued by the Russian ministry of finance.

Indosuez said it had been approached by about 10 other Russian financial institutions interested in structuring similar bond issues or financings.

Two institutions have been short-listed on the strength of their balance sheet, relationship with Indosuez, and reputation in the market place. Indosuez expects to launch these issues in the near future.

● Trading started last week in unrestricted level-one American Depositary Receipts (ADRs) issued by Lukoil, the oil concern which accounts for about 15 per cent of Russia's crude output, writes John Thornhill in Moscow.

Lukoil's proxy shares are the first Russian ADRs to win approval from the US Securities and Exchange Commission, making them eligible to be bought by all US investors.

Some US investment institutions, including pension funds, are legally prevented from buying foreign stocks until they receive such an SEC clearing.

Trading ADRs in Russian companies will substantially increase the liquidity of the equity market, although some Russian financiers fear it might drive the market offshore. At least 12 more Russian companies are said to be planning similar ADRs.

US pension funds invest less in securities abroad

By Antonia Sharpe

Net flows by US pension funds into foreign securities stood at $34bn in 1995, down $6bn on 1994, according to estimates from InterSec, the US-based pension fund consultancy.

The estimates, published pending a semi-annual survey of money managers, reflect a move away from foreign markets by US institutions last year to give them greater exposure to their own markets.

Despite the drop in cash flows from plan sponsors, InterSec estimates that US tax-exempt institutional assets invested in non-US mandates grew by $70bn during 1995 to $365bn, which compared with $151bn at the end of 1992.

Market growth contributed $36bn of the 1995 increase, a return of over 10 per cent. Of the $34bn net flows during the year, $29bn was invested in equities and the rest in fixed-income. Of total assets at the year-end, $291bn was invested in equities, $62bn in fixed-income and $13bn in balanced funds and derivatives.

Further big D-Mark issues expected to surface

By Conner Middelmann

With the US and Japan closed for national holidays, the eurobond market had a quiet day with only a handful of new issues.

However, activity should pick up in the course of the week, with several large offerings expected to surface, especially in the D-Mark sector.

INTERNATIONAL BONDS

That sector, which has seen a high volume of new issuance in the last two weeks, absorbed two new issues yesterday.

BHF Finance, the funding arm of Germany's BHF Bank, issued DM300m of eight-year bonds via BHF Bank.

Yielding some 40 basis points over the Treuhand bond due March 2004 and 15 basis points over domestic mortgage bonds, the paper saw good demand from retail investors in Germany, Switzerland and the Benelux region, according to the lead manager.

A further D-Mark offering came for BBA Creditanstalt (São Paolo), which issued DM100m of 8.5 per cent three-year bonds via Banque Paribas yielding 463 basis points over the corresponding German government bond.

Most dealers were keenly anticipating today's jumbo deal for the Hellenic Republic, which is expected to issue DM1bn of seven-year bonds via joint leads Salomon Brothers and WestLB.

Price talk yesterday was for a yield spread of around 100 basis points over German government paper.

Another large D-Mark offering is expected this week for L-Bank, which is set to issue DM1bn of 10-year bonds via CS First Boston and Deutsche Morgan Grenfell.

The floating-rate note sector, which has been suffering from a dearth of supply in recent months, saw two new issues: a £200m offering of seven-year notes for the Bradford & Bingley Building Society via BZW and UBS, and $100m of notes for Sweden's Spintab via PaineWebber.

The Bradford and Bingley issue, which is callable from March 2000, pays a coupon of three-month Libor plus $\frac{1}{8}$ and was sold at around Libor plus 10 basis points, mainly to asset-hungry UK financial institutions. The Spintab offering carries a coupon of three-month Libor flat and yielded four basis points over Libor at the re-offer price.

Elsewhere, Telebras, Brazil's state-controlled telecommunications company, issued L250bn of three-year bonds via BCI and J.P. Morgan. The bonds – the first non-Argentine emerging-market issue in the lira sector and Telebras's first eurobond since October 1993 – were priced at 345 basis points over the three-year swap rate and were placed largely with institutional investors in Italy, Switzerland and the UK, the lead managers said.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
Spintab‡	100	(a)	99.925R	Feb.1999	0.05R	-	PaineWebber International
D-MARKS							
BHF Finance (Neths.)	300	6.00	101.375	Feb.2004	2.375	-	BHF-Bank
BBA Creditanstalt (Sao Paolo)	100	8.50	99.75R	Feb.1999	0.675R	+463(5¾%-99)	Banque Paribas (Deutsch.)
STERLING							
Bradford & Bingley B/S(b)‡	200	(b1,c)	100.00	Mar.2002	0.24	-	BZW/UBS
LUXEMBOURG FRANCS							
LB Schleswig-Holstein Intl.	2bn	6.00	102.25	Mar.2003	1.875	-	BCEE
Kredietbank Luxembourg	2bn	6.00	102.80	Mar.2003	1.875	-	Kredietbank Luxembourg
ITALIAN LIRE							
Telebras	250bn	(c)	(c)R	Feb.1999	1.00R	+345(3yrSwp)	BCI/JP Morgan Securities
DANISH KRONER							
Nordic Investment Bank(c)	400	6.125	101.70	Nov.2001	1.875	-	Banque Paribas Luxembourg

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor flat. b) Callable on coupon dates from Mar.00 at par. b1) 3-mth Libor +$\frac{1}{8}$%. c) Priced today.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	112.2400	−0.010	8.19	8.14	8.15
Austria		6.500	11/05	102.0300	+0.170	6.21	6.31	6.58
Belgium		6.500	03/05	100.4200	+0.300	6.45	6.62	6.67
Canada *		8.750	12/05	111.3300	+0.250	7.15	7.10	7.20
Denmark		8.000	03/06	106.9800	+0.220	7.01	7.15	7.30
France	BTAN	7.750	04/00	108.2500	+0.250	5.50	5.77	6.11
	OAT	7.750	10/05	108.8900	+0.240	6.48	6.54	6.93
Germany Bund		6.000	01/06	100.5700	+0.220	5.88	5.99	6.11
Ireland		8.000	08/06	104.2500	+0.130	7.39	7.46	7.44
Italy		10.500	09/05	101.2000	+0.220	10.50†	10.40	11.08
Japan	No 129	6.400	03/00	0.0000	–	0.00	1.80	1.34
	No 174	4.600	09/04	0.0000	–	0.00	3.02	2.67
Netherlands		6.750	11/05	106.6100	+0.320	5.84	5.97	6.11
Portugal		11.875	02/05	114.2100	+0.810	9.47	9.67	10.35
Spain		10.150	01/06	104.3700	+0.600	9.41	9.60	10.15
Sweden		6.000	02/05	88.5370	+0.290	8.16	8.34	8.73
UK Gilts		8.000	12/00	104–29	+6/32	6.80	6.93	6.86
		8.500	12/05	107–18	+14/32	7.40	7.49	7.52
		9.000	10/08	111–23	+16/32	7.65	7.65	7.68
US Treasury *		5.875	11/05	0–00	–	0.00	5.68	5.72
		6.875	08/25	0–00	–	0.00	6.04	6.12
ECU (French Govt)		7.500	04/05	104.7000	+0.180	6.79	6.89	7.15

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Close (Jan 12) — Treasury Bills and Bond Yields

Prime rate	8½	One month	5.34	Two year	5.15
Broker loan rate	7¼	Two month	5.28	Three year	5.29
Fed.funds	5⅝	Three month	5.18	Five year	5.43
Fed.funds at intervention	5½	Six month	5.19	10-year	5.77
		One year	5.14	30-year	6.15

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	121.64	121.66	+0.20	121.74	121.50	61,238	117,291
Jun	122.08	122.10	+0.20	122.14	122.08	585	7,506
Sep	120.98	120.98	+0.16	121.04	120.98	10	804

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Feb	Calls Mar	Calls Jun	Puts Feb	Puts Mar	Puts Jun
119	-	-	-	-	0.15	-
120	1.59	2.01	-	0.04	0.34	0.80
121	0.81	1.28	-	0.16	0.60	1.12
122	0.22	0.72	-	0.66	1.05	-
123	0.03	0.36	1.16	-	-	-

Est. vol. total, Calls 15,152 Puts 6,467. Previous day's open int., Calls 146,244 Puts 135,890.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	100.35	100.50	+0.25	100.56	100.35	74349	218029
Jun	99.80	99.81	+0.24	99.82	99.80	661	4627

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Feb	Calls Mar	Calls Apr	Calls Jun	Puts Feb	Puts Mar	Puts Apr	Puts Jun
10050	0.27	0.63	0.57	0.92	0.27	0.63	1.26	1.61
10100	0.09	0.40	0.40	0.72	0.59	0.90	1.59	1.91
10150	0.02	0.24	0.27	0.56	1.02	1.24	1.96	2.25

Est. vol. total, Calls 18484 Puts 12415. Previous day's open int., Calls 200488 Puts 180008

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	110.20	110.10	+0.23	110.53	110.07	24528	68298
Jun	110.00	109.74	+0.22	110.00	109.98	11	1738

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
11000	1.36	2.30	1.26	2.56
11050	1.11	2.07	1.51	2.85
11100	0.89	1.85	1.79	3.12

Est. vol. total, Calls 1185 Puts 3969. Previous day's open int., Calls 67776 Puts 48900

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	97.17	97.33	+0.50	97.65	97.10	45,814	48,077

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	110-23	111-02	+0-17	111-12	110-22	29722	136978
Jun	-	110-14	+0-17	-	-	0	384

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Feb	Calls Mar	Calls Apr	Calls Jun	Puts Feb	Puts Mar	Puts Apr	Puts Jun
111	0-37	1-07	1-14	1-50	0-33	1-03	1-50	2-22
112	0-12	0-43	0-54	1-24	1-08	1-39	2-26	2-60
113	0-03	0-24	0-35	1-02	1-63	2-20	3-07	3-38

Est. vol. total, Calls 3120 Puts 2619. Previous day's open int., Calls 24231 Puts 22110

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	91.50	91.44	+0.12	91.50	91.20	1,353	5,418

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	118-31	118-31	-	119-15	118-18	326,566	368,673
Jun	118-24	118-18	-	119-01	118-05	1,471	19,046
Sep	118-12	118-02	-	118-17	117-28	122	5,594

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Mar	119.25	-	-	119.34	119.22	274	0
Jun	117.86	-	-	117.86	117.86	25	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Jan 15	Day's change %	Fri Jan 12	Accrued interest	xd adj. ytd		Low coupon yield Jan 15	Jan 12	Yr. ago	Medium coupon yield Jan 15	Jan 12	Yr. ago	High coupon yield Jan 15	Jan 12	Yr. ago
1 Up to 5 years (22)	123.42	+0.08	123.32	2.35	0.12	5 yrs	6.89	6.93	8.63	6.93	6.96	8.65	6.99	7.02	8.84
2 5-15 years (21)	151.02	+0.23	150.68	2.37	0.00	15 yrs	7.63	7.66	8.54	7.66	7.70	8.66	7.76	7.80	8.89
3 Over 15 years (9)	167.39	+0.34	166.82	2.10	1.02	20 yrs	7.73	7.76	8.51	7.75	7.78	8.66	7.82	7.86	8.84
4 Irredeemables (6)	191.97	+0.23	191.53	1.88	0.00	Irred.†	7.86	7.88	8.59						
5 All stocks (57)	145.55	+0.20	145.24	2.35	0.21										

Index-linked	Mon Jan 15	Day's change %	Fri Jan 12	Accrued interest	xd adj. ytd		Inflation 5% Jan 15	Jan 12	Yr. ago	Inflation 10% Jan 15	Jan 12	Yr. ago
6 Up to 5 years (1)	197.24	+0.01	197.22	1.97	0.00	Up to 5 yrs	2.47	2.47	4.05	1.34	1.35	2.89
7 Over 5 years (11)	185.79	+0.09	185.63	0.89	0.00	Over 5 yrs	3.54	3.55	3.88	3.36	3.36	3.71
8 All stocks (12)	185.85	+0.09	185.69	1.01	0.00							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jan 15	Jan 12	Jan 11	Jan 10	Jan 9	Yr ago	High*	Low*
Govt. Secs. (UK)	95.60	95.46	95.33	95.39	95.41	90.97	96.22	90.22
Fixed Interest	114.22	114.14	114.08	114.08	114.06	108.25	115.04	108.77

*for 1995/96. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75). Fixed Interest high since compilation: 133.87 (21/1/94), low 50.53 (3/1/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jan 12	Jan 11	Jan 10	Jan 9	Jan 8
Gilt Edged bargains	89.5	91.6	84.8	83.3	69.3
5-day average	83.7	82.6	89.1	81.5	79.2

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on January 15

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 5 97	1000	99½	99¾		5.50
Abbey Natl Treasury 6½ 03	1000	101¼	102		6.19
ABN Amro Bank 7¼ 05	1000	105⅝	106⅛	+⅛	6.44
African Dev Bk 7⅞ 23	500	105½	106	+⅛	6.99
Alberta Province 7⅝ 98	1000	105⅞	105⅝		5.49
Asian Dev Bank 6¼ 05	750	101⅛	101¼		6.12
[illegible]					

	Issued	Bid	Offer	Chg.	Yield
Sweden 8 97	2000	107¼	107⅝		3.76
United Kingdom 7⅛ 97	5500	105⅞	106		3.85
Volkswagen Intl Fin 7 03	1000	106⅞	106⅞	+⅛	6.07
World Bank 0 15	2000	30⅝	30⅞	+⅛	6.16
World Bank 6⅞ 03	3000	101¼	101⅞	+⅛	5.67
SWISS FRANC STRAIGHTS					
[illegible]					

	Issued	Bid	Offer	Chg.	Yield
Abbey Natl Treasury 8 03 £	1000	101½	101⅝	+¼	7.71
Alliance Leics 11⅞ 97 £	100	105⅝	106⅛	+⅛	6.50
British Land 8⅞ 23 £	150	94¼	94¾	+⅛	9.55
Denmark 6⅜ 98 £	800	100	100¼		6.73
EIB 8 03 £	1000	102¼	102⅞	+⅛	7.49
Halifax 10⅞ 97 £	100	104	104⅛		6.86
Hanson 10⅜ 97 £	500	105¼	106		6.77
[illegible]					

FLOATING RATE NOTES

[illegible]

CONVERTIBLE BONDS

[illegible]

[illegible]

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Fear of German slowdown pushes D-Mark lower

By Graham Bowley

The D-Mark weakened on the foreign exchanges yesterday as the markets continued to adjust to growing expectations of a sharp slowdown in the German economy and of lower German interest rates.

European monetary union was again a focus of attention after Bundesbank officials appeared to cast doubt on an early introduction of the European single currency in all EU member states.

But currency movements were generally small amid quiet trading conditions due to holidays in the US and Japan.

Attention is also turning to the meeting of finance ministers and central bank governors from the Group of Seven leading industrialised nations in Paris on Saturday. However, few analysts expect any significant initiatives to follow from the meeting.

Elsewhere in Europe, most currencies traded higher against the D-Mark. The Italian lira held firm despite political uncertainty following the resignation of Mr Lamberto Dini, the prime minister, last week.

The D-Mark closed in Europe at L1,088, from L1,092 against the lira.

Sterling was underpinned by a firm tone to the dollar. The pound closed at DM2.2359 from DM2.229 against the D-Mark. Against the dollar it finished at $1.5457, from $1.547.

The dollar finished in London at DM1.4466, from DM1.441. Against the yen it closed at Y105.2.

■ Mr Hans-Juergen Koebnick, a Bundesbank council member, added to the debate on the health of the German economy yesterday when he said that there was further leeway for cuts in the discount rate.

His remarks intensified expectations that the Bundesbank might move soon to ease monetary policy following data last week which suggested that the economy was slowing sharply.

Economists said that the fact that Bundesbank members were talking openly about possible interest rate cuts illustrated the seriousness of the German slowdown and held out the prospect of further weakness in the D-Mark.

Mr Nick Stamenkovic, economist at DKB International, said the data had "led to a significant improvement in expectations of lower interest rates."

Euromark interest rate futures, which rallied in recent sessions on the expectation of a monetary easing, made modest gains across the curve yesterday. The June 1996 contract closed three basis points firmer at 96.74, discounting short term interest rates of 3.26 per cent by mid-year.

But few analysts expect the Bundesbank to cut the discount rate at its council meeting on Thursday. Most analysts anticipate further cuts in the shorter-term repo rate first.

Mr Stamenkovic said: "Something has to give soon, either the economy or the exchange rate. At the moment, it's the economy."

He said that although the D-Mark was overvalued it might not weaken if portfolio investment flows, which underpinned the currency last year, continued to pour into German assets, or if there were worries about Emu, which would favour the D-Mark.

■ Mr Koebnick also added to speculation over the Bundesbank's stance towards the introduction of the European single currency.

He suggested that Emu must have at least five or six members to start in 1999. Mr Otmar Issing, the Bundesbank chief economist had earlier cast doubts on European countries' preparation for a single currency.

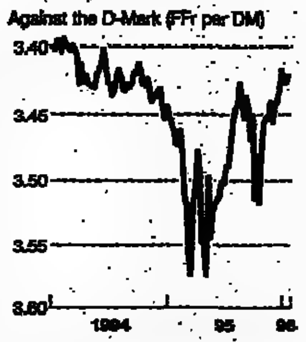
Mr Hans Tietmeyer, the Bundesbank president, also added to nervousness about Emu when he suggested yesterday that "in all probability" not all EU countries would take part in the start of the common currency. He said that those countries that did not participate from the beginning might not be ready to take part for "a fairly long time".

"The Bundesbank appears to be taking a harder line on Emu," said Mr Peter Luxton, currency strategist at MMS in London.

Growing doubt about Germany's ability to meet the Maastricht criteria for Emu because of the country's economic slowdown has weighed on the German currency in recent sessions. While a failure to achieve Emu might benefit the D-Mark in the long-term, Germany's commitment to a single currency is seen as increasing pressure on the authorities to cut interest rates to boost the economy.

French Franc

Against the D-Mark (FFr per DM)



Source: FT Extel

■ Pound in New York

Jan 15	Latest	Prev. close
£ spot	1.5460	1.5465
1 mth	1.5446	1.5453
3 mth	1.5427	1.5431
1 yr	1.5317	1.5322

■ OTHER CURRENCIES

Jan 15	£	$
Czech Rp	41.2651 - 41.4880	26.7760 - 26.7850
Hungary	212.325 - 212.480	137.395 - 137.440
Iran	4637.70 - 4638.30	3000.00 - 3000.00
Kuwait	0.4627 - 0.4633	0.2994 - 0.2997
Poland	3.8065 - 3.8092	2.4076 - 2.4080
Russia	7217.61 - 7218.50	4669.00 - 4671.00
U.A.E.	5.6758 - 5.6784	3.6727 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jan 15		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.7226	+0.046	147 - 305	15.7394	15.6919	15.6791	3.3	15.6261	2.2	-	-	106.4
Belgium	(BFr)	45.9522	+0.1387	136 - 908	46.0020	45.8370	45.8472	2.7	45.6672	2.5	44.9672	2.1	108.7
Denmark	(DKr)	8.6456	+0.0264	419 - 493	8.6505	8.6258	8.634	1.6	8.6166	1.3	[illegible]	1.0	109.2
Finland	(FM)	6.7650	+0.0156	585 - 715	6.7840	6.7330	6.7606	0.8	6.7525	0.7	-	-	86.6
France	(FFr)	7.6486	+0.0137	474 - 522	7.6640	7.6469	7.6446	0.6	7.6364	0.7	7.59	0.8	110.4
Germany	(DM)	2.2359	+0.007	348 - 369	2.2365	2.2212	2.2306	2.8	2.221	2.7	2.1776	2.6	111.0
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 15		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.1722	+0.0409	687 - 756	10.1900	10.1474	10.1567	1.8	10.1307	1.6	10.0272	1.4	108.6
Belgium	(BFr)	29.7300	+0.1185	100 - 500	29.7700	29.6600	29.678	2.1	29.59	1.9	29.285	1.5	106.5
Denmark	(DKr)	5.5935	+0.0225	920 - 950	5.6005	5.5769	5.5897	0.8	5.5835	0.7	5.601	-0.1	108.7
Finland	(FM)	4.3768	+0.0143	730 - 806	4.3888	4.3557	4.3718	1.4	4.3631	1.2	4.3343	1.0	86.1
France	(FFr)	4.9493	+0.0137	485 - 500	4.9590	4.9447	4.9525	-0.8	4.9569	-0.6	4.9333	0.3	109.8
Germany	(DM)	1.4466	+0.0059	461 - 470	1.4490	1.4426	1.4444	1.8	1.4405	1.8	1.4223	1.7	110.6
[illegible]													
[illegible]		-0.0002	805 - 806	3.7506	3.7503	3.7501	-0.1	3.7517	-0.1	3.756	-0.1	-	
[illegible]		+0.0007	216 - 226	1.4236	1.4213	1.4187	3.0	1.4127	2.7	1.3873	2.8	-	
[illegible]		+0.0015	307 - 347	3.6350	3.6325	3.6629	-9.5	3.7144	-8.8	3.9377	-8.4	-	
[illegible]		+1.05	500 - 700	791.800	789.070	794.6	-4.5	799.1	-3.3	816.6	-3.2	-	
[illegible]		+0.002	750 - 780	27.3790	27.3640	27.3955	-0.9	27.4365	-0.9	-	-	-	
[illegible]		-0.018	600 - 700	25.2710	25.2490	25.3588	-4.7	25.5625	-4.8	26.445	-4.7	-	

... spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the ... rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jan 12: Base average 1990=100

WORLD INTEREST RATES

MONEY RATES

January 15	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
[illegible]								

EURO CURRENCY INTEREST RATES

Jan 15	Short term	7 days notice	One month	Three months	Six months	One year
[illegible]						

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Mar	CALLS Jun	CALLS Sep	PUTS Mar	PUTS Jun	PUTS Sep
9000	0.35	0.50	1.15	0.18	0.12	0.23
9025	0.20	0.61	0.96	0.28	0.18	0.29
9050	0.09	0.44	0.79	0.37	0.26	0.37

Est. vol. total, Calls 80 Puts 300. Previous day's open int., Calls 11673 Puts [illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 15		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
[illegible]																		

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

■ STERLING FUTURES (IMM) £62,500 per £

UK INTEREST RATES

LONDON MONEY RATES

Jan 15	Over-night	7 days notice	One month	Three months	Six months	One year
[illegible]						

UK clearing bank base lending rate 6½ per cent from December 13, 1995

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

EMS EUROPEAN CURRENCY UNIT RATES

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

BASE LENDING RATES

	%		%		%
[illegible]					

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LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PHARMACEUTICALS - Cont.

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ☐ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- Free annual/interim report available, see details below.
- USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- Indicated dividend yield after pending scrip and/or rights issue.
- Merger bid or reorganisation in progress.
- Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- Unregulated collective investment scheme.

a Yield based on annualised dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. v P/e ratios are calculated under new ACT guidelines. z Dividend yield includes a special payment. F Yield based on prospectus or other official estimates for 1994-95. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1995. K Yield based on prospectus or other official estimates for 1996. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1995-96. R Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xt ex capital distribution.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd
Pembroke Hall, Pembroke, Bermuda

Prices for dealing January 15

Jupiter Tyndall (Bermuda) Ltd
PO Box HM1256, Hamilton, Bermuda 001 809 292 2760
Jupiter Tyndall World Umbrella Fund Ltd

Newport Investment Management
73 Front Street, Hamilton, Bermuda

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

Latest Fund Prices 24hr service 01481 718043

Sarasin Funds Mngmt (Guernsey) Ltd
PO Box 248, St Peter Port, Guernsey 01481 725021

Schroder Investment Mngmt (Guernsey) Ltd
PO Box 255, St Peter Port, Guernsey 01481 710851

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

Arab Bank Fund Managers (Guernsey) Ltd
AB International Fund Ltd

Bachmann Global Investment Fund Ltd

IRELAND (SIB RECOGNISED)

SAM Fund Management Ltd - Contd.

For BT Asset Mgt (Ireland) Ltd see LGT Asset Mgt PLC

Guinness Flight Select Funds Plc
Europa Hse, Harcourt St, Dublin 2 00 3531 407 2080

Henderson Crosthwaite Investment Co
32 St Mary at Hill, London, EC3P 3AJ 0800 581208

LGT Asset Management PLC
(44) 171 710 4567 London (852) 842 7200 Hong Kong

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

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Credis Investment Funds - Contd.

Morgan Stanley Sicav

Murray Universal, Sicav

NICAM Asia Pacific Umbrella Fund

Nikko Asia Convertible Bond Fund

Albany International Assurance Ltd - Contd.

Allied Dunbar International Assce Ltd (z)

CMI Insurance Co Ltd

Royal Skandia Life Assurance Ltd (z)

The China Fund

OTHER OFFSHORE FUNDS

Global Asset Management - Contd.

Magellan Emerging Mkts Mngt (Jersey) Ltd

Republic Funds

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

MANAGED FUNDS NOTES

LONDON STOCK EXCHANGE

MARKET REPORT

Interest rate hopes drive equities higher

By Steve Thompson, UK Stock Market Editor

The lure of another round of European interest rate cuts, coupled with strong performances from gilts and German bunds, provided a firm foundation for UK equities yesterday.

But there remained doubts about the London market's ability to make any substantial progress in the short term.

Some UK traders said the London market had shown a marked reluctance to build on strong gains recorded in mid-morning.

At the close of a session featured by a sharp reduction in turnover compared with recent levels of activity, the FT-SE 100 index settled 5.4 ahead at 3,662.7, well below the day's high.

And there was much less enthusiasm for the market's second-line stocks, where the Mid 250 index was always struggling and eventually ended a net 3.0 off at 4,021.6.

Reduced business in the market was attributed to the lack of a lead from US bond markets, which were closed for the Martin Luther King holiday in the US.

Dealers also pointed out that Mondays are traditionally quiet, with business in equities tending to build up gradually during the week.

This week sees two potential rate-cutting meetings in Europe. Mr Kenneth Clarke, chancellor of the exchequer, is scheduled to meet Mr Eddie George, governor of the Bank of England, tomorrow to discuss monetary policy. And on Thursday the Bundesbank council meets to debate German interest rates.

European markets got off to a flying start yesterday, as they picked up the scent of rate reductions. The Frankfurt bourse hit an all-time high and Paris made rapid progress, with London tending to lag behind its European brethren but always looking in good shape.

After a quiet but firm opening, showing a gain of around 2 points, the Footsie began to pick up speed, helped on its way by some encouraging economic numbers on producer prices. These were interpreted as reducing inflationary pressure in the UK economy.

At its best, in mid-morning, the FT-SE 100 touched the day's peak of 3,668.8. Thereafter it fluctuated in a narrow range before settling comfortably above the 3,660 mark.

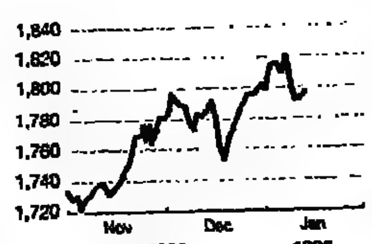
A senior marketmaker at one of the big securities houses said he thought there was the potential for the Footsie to retrace another 40 points in short order: "There is a worry that equities have shown a marked reluctance to follow gilts in recent days," he added.

Wall Street gave an initial lift to London, but then came under persistent downside pressure, dipping into the red shortly after the opening and losing ground thereafter. The Dow Jones Industrial Average was more than 20 points lower two hours after London closed.

Turnover at 6pm reached 584.3m shares, well below last week's levels. Non-FT-SE 100 stocks accounted for 57 per cent of the total. Asda, the supermarkets group, topped the list of active stocks.

J. Sainsbury outpaced the rest of the Footsie constituents, helped by a broker recommendation, but Tomkins suffered from switching caused by what some dealers labelled as disappointing interim figures.

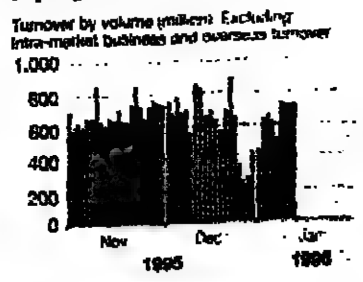
FT-SE-A All-Share index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3662.7	+5.4
FT-SE Mid 250	4021.6	-3.0
FT-SE-A 350	1820.2	+1.8
FT-SE-A All-Share	1795.26	+1.84
FT-SE-A All-Share yield	3.82	(3.81)
FT Ordinary index	2727.0	+6.1
FT-SE-A Non Fins p/e	16.64	(16.62)
FT-SE 100 Fut Mar	3685.0	+14.0
10 yr Gilt yield	7.40	(7.46)
Long gilt/equity yld ratio.	2.05	(2.07)

Best performing sectors

1 Retailers, Food .... +1.3
2 Tobacco .... +1.3
3 Pharmaceuticals .... +0.8
4 Engineering, Vehicles .... +0.7
5 Water .... +0.6

Worst performing sectors

1 Oil, Integrated .... -1.5
2 Mineral Extraction .... -1.2
3 Electricity .... -1.1
4 Oil Exploration & Pro .... -0.9
5 Insurance .... -0.7

Basle bid buzz in Zeneca

An old story with a newish twist helped Zeneca improve 18 to 1248p.

The pharmaceuticals group has long been considered a potential takeover candidate by some analysts, with Roche, of Switzerland, seen as the most likely aggressor.

Since Christmas, whispers have been coming out of Basle that Roche has been arranging a very large sterling banking facility.

Yesterday, the possibility had a few fund managers pondering and may well have helped the tightly traded Zeneca stock recover some of the ground lost in the past month. Zeneca had fallen by a pound, with some leading US houses – notably Goldman Sachs – going negative on the pharmaceuticals sector as a whole.

Panmure Gordon analyst Mr Robin Gilbert, who has been a strong believer in the Zeneca bid story for some time, said: "I heard from people with connections in Basle that sums are being raised in the sterling market by Roche."

While most experts agree that Zeneca would be a big meal to swallow, even for a giant such as Roche, there is a feeling that it could team up with rival heavyweight Merck and they could carve up the company together.

Any doubts that J. Sainsbury is back in favour with investors were brushed aside as the stock advanced 11 to 415p, making it the best performer of the day in the Footsie.

The market turned more positive on the stock towards the end of last week as it reassessed last week's management changes at the company.

Sentiment received a boost yesterday when well known bear NatWest Securities upgraded its recommendation on the shares from "reduce" to "hold", citing last week's management changes and an improved sales outlook.

Mr Tony MacNeary at the securities house said: "I believe the recently announced management changes to be positive. Also, the January Savers promotion is producing a positive uplift to sales in a way that promotions in the recent past failed to do."

The group is to publish a trading statement towards the end of this month and more positive news is expected in the run-up to the statement.

Elsewhere in the sector, Asda Group was the subject of a two-way pull which brought volume of 34m. The shares, a good market recently amid suggestions that the group may be the target of an overseas predator or on the acquisition trail in the UK, eased ½ to 113½p. Tesco put on 3 at 303p.

Broadcaster Carlton Communications jumped 24 to 1037p as investors responded to growing speculation that the group will buy the consumer books arm of Reed International.

There is a feeling that Carlton is prepared to pay between £250m and £300m for the section, which could provide a strong back catalogue for future television rights. Reed, which has been keen to sell the division for some time and put more stress on its lucrative academic and scientific journal business, improved 5 to 993p. Both stocks have underperformed the market recently.

There was also a wilder rumour that Carlton could be the target of a US aggressor. However, analysts dismissed it, arguing that any US group would face regulatory problems over Carlton's Channel Three licences.

They said the rise was predominantly down to relief – the argument being that if it bought Reed books it would not go for the Daily Express newspaper.

Express owner United News & Media firmed a penny to 571p in spite of figures showing that the circulation gap between the Express and the Daily Mail, its more successful rival, was widening.

Telecoms leader BT bucked the sector with a rise of 7 to 367½p as SGST decided it was time to give the stock an extra push.

The French-owned broker has supported BT's long-term prospects since last summer, when it argued that the company was in a far stronger position than its European rivals.

Yesterday, it turned short-term buyer as well. Analyst Mr John Tysoe said: "The shares have hit bedrock. Every kind of regulatory problem has now been discounted."

Other telecoms groups failed to match BT's performance. Cable and Wireless slid 7 to 453p on disappointment that no significant announcement came out of the extraordinary general meeting about the vacancies at the top.

Vodafone was down 2 at 211½p on talk that one broker had downgraded its subscriber forecasts. ABN Amro Hoare Govett was blamed but said it had made no change.

Hard-hit Nynex CableComms fell a further 4½ to 95½p on relatively heavy turnover of 5.1m units, in spite of talk of bottom-fishing last week.

National Westminster, the retail bank, recovered 2 to 637p. SGST turned strong buyer, with a big research note that said management was underestimated, costs had been stemmed and the bank had been unfairly overlooked in favour of Barclays, and there was very little to choose between the two.

Barclays shed 6 to 744p, with dealers also citing switching into Lloyds TSB, up 8 at 317p.

Insurer Sun Alliance shunned the weakness in the composite sector as Credit Lyonnais Laing took it off the sell list. Analyst Mr David Hudson was pointing out to clients that the shares had hit a four-year relative low against the market. The shares firmed a penny to 366p.

Commercial Union fell 13 to 610p amid worries about provisions for environmental claims.

A Kleinwort Benson recommendation boosted drinks stocks. The broker advised clients to go "overweight" in the sector. Allied Domecq gained 9 to 543p and Whitbread firmed a penny to 676p.

The list of the best performers also included Bass, where the shares gained 13 to 716p. Rumours suggesting the company wants to acquire Forte's Méridien hotels chain, should Granada Group win its bid for Forte, continued to circulate.

Forte yesterday announced that Sir Rocco Forte is stepping down as chairman of the group but will remain as chief executive. However, market watchers said the move was "too little, too late" and sentiment continued to move in Granada's favour.

Shares in Forte eased 3 to 366p, in trade of 9.7m, while Granada continued to move forward and finished 7 higher at 670p.

Mr Mark Finnie, NatWest leisure analyst, urged Forte investors to accept the Granada bid, saying: "Granada's record speaks for itself. So does Forte's. We move Granada from add to buy and recommend acceptance of the cash and paper offer."

Diversified engineering products and food manufacturer Tomkins was the worst performer in the FT-SE 100 yesterday. The shares gave up 10 to 280p.

The group unveiled interim profits just below market expectations.

Dealers also attributed the slide to profit-taking, following recent strength in the stock, and the lack of detailed news about the Gates Rubber acquisition which was announced at the end of last year. Volume was a hefty 9.3m. However, several leading brokers remain fans of the shares.

MARKET REPORTERS:
Peter John,
Joel Kibazo.

FINANCIAL TIMES EQUITY INDICES

	Jan 15	Jan 12	Jan 11	Jan 10	Jan 9	Yr ago	*High	*Low
Ordinary Share	2727.0	2720.9	2720.9	2725.9	2738.7	2365.6	2750.5	2238.3
Ord. div. yield	4.06	4.06	4.06	3.98	3.96	4.42	4.73	3.94
P/E ratio net	16.29	16.26	16.26	16.08	16.16	17.86	21.39	15.35
P/E ratio nil	16.08	16.05	16.07	15.88	15.87	17.26	22.21	15.17

*For 1995/96. Ordinary Share index since compilation: high 2750.5 8/01/96; low 49.4 26/6/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2721.8	2725.4	2725.9	2728.4	2729.1	2728.1	2726.4	2725.2	2727.3	2729.7	2721.8

	Jan 15	Jan 12	Jan 11	Jan 10	Jan 9	Yr ago
SEAQ bargains	30,817	29,603	29,766	31,370	31,818	21,244
Equity turnover (£m)†	-	1922.4	2095.0	1999.0	1728.1	1227.7
Equity bargains†	-	36,231	38,114	36,452	38,294	29,572
Shares traded (ml)†	-	728.8	728.7	715.4	739.0	561.7

†Excluding intra-market business and overseas turnover.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	695	Total Highs	103	Total contracts	29,421
Total Falls	529	Total Lows	25	Calls	18,220
Same	1,606			Puts	11,201

Jan. 15 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	3679.0	3684.0	+13.0	3688.0	3675.0	4098	62845
Jun	3689.0	3686.0	+13.0	3689.0	3689.0	1	1122

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	-	4050.0	+10.0	-	-	0	3412

■ FT-SE 100 INDEX OPTION (LIFFE) (*3663) £10 per full index point

[illegible]

Calls 3,158 Puts 1,445

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

Jun	221½ 65½	157 97½
Sept†	258½ 95½	205½ 129

Calls 1,481 Puts 1,793 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1995/96 High	1995/96 Low	Stock	Close price p	+/-	Net div.	Div. cov	Grs. yld	P/E net
-	F.P.	23.2	125	116	Century Inns	116		-	-	-	-
-	F.P.	55.5	113	108	Cox Insurance	113		-	-	-	-
-	F.P.	14.8	60	52	†Crown Products	55	+2	-	-	-	-
-	F.P.	13.5	90	72	†Dmatek	72	-1	-	-	-	-
-	F.P.	26.6	88	73	Jupiter Split Cap	85½		-	-	-	-
-	F.P.	53.8	101	98	Jupiter Split Inc	[illegible]		K7.24	-	9.2	-
-	F.P.	59.0	259	258	Jupiter Split Units	258		7.24	-	0.2	-
-	F.P.	9.06	¼	¼	†Mountcashel	¼		-	-	-	-
-	F.P.	8.59	78	75	†Nthn Petm	75		-	-	-	-
-	F.P.	0.13	8	8	†Do Wrnts	8		-	-	-	-
-	F.P.	1.07	105	100	†Revelation P'dilly	100		-	-	-	-
-	F.P.	3.15	3¾	3	†Rushmere Wynne	3½		-	-	-	-
-	F.P.	0.79	7½	6½	†SkyePharma Wts	6½	-½	-	-	-	-
133	F.P.	48.9	146	133	Unicorn Intl	146	+3	Wx5.5	2.2	4.7	12.2
-	F.P.	180.1	260	213	Victrex	260		Lv3.8	2.4	1.7	30.4
-	F.P.	4.05	138	125	†Viewinn	135		-	-	-	-

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Jan 12	% chg on day	Jan 11	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (34)	2167.07	-1.8	2208.36	1864.12	1.65	-	2208.36	1637.81
■ Regional Indices								
Africa (16)	3010.05	-1.7	3063.46	2867.08	3.02	31.54	3063.46	2272.74
Australasia (6)	2665.14	-2.4	2732.31	2167.81	1.87	41.75	2732.31	1768.20
North America (12)	1864.44	-1.8	1898.74	1509.85	0.73	38.03	1943.53	1348.18

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FT - SE Actuaries Share Indices — The UK Series

	Jan 15	Day's chge%	Jan 12	Jan 11	Jan 10	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3662.7	+0.1	3657.3	3654.9	3671.5	3076.7	3.92	2.06	15.45	2.65	1466.02
FT-SE Mid 250	4021.6	-0.1	4024.6	4016.3	4039.5	3473.0	3.70	1.79	18.90	12.63	1589.26
FT-SE Mid 250 ex Inv Trusts	4029.9	-0.1	4033.4	4024.4	4049.6	3484.2	3.84	1.84	17.66	13.43	1594.08
FT-SE-A 350	1820.2	+0.1	1818.4	1816.6	1825.4	1538.7	3.87	2.01	16.07	2.28	1491.00
FT-SE-A 350 Higher Yield	1825.2	+0.2	1820.7	1821.6	1829.4	1675.0	4.77	1.92	14.40	3.45	1241.87
FT-SE-A 350 Lower Yield	1819.8	-0.1	1820.8	1816.2	1826.0	1502.3	2.91	2.34	18.34	0.98	1243.43
FT-SE SmallCap	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE SmallCap ex Inv Trusts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A ALL-SHARE	1795.26	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FT-SE Actuaries All-Share

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jan 15 / Sch)

BELGIUM/LUXEMBOURG (Jan 15 / Frs.)

CZECH REP (Jan 15 / Korona)

DENMARK (Jan 15 / Kr)

FINLAND (Jan 15 / Mks)

FRANCE (Jan 15 / Frs.)

GERMANY (Jan 15 / Dm.)

GREECE (Jan 15 / Drachma)

ITALY (Jan 15 / Lira)

NETHERLANDS (Jan 15 / Fls.)

NORWAY (Jan 15 / Kroner)

POLAND (Jan 15 / Zloty)

PORTUGAL (Jan 15 / Escudo)

SPAIN (Jan 15 / Pta.)

SWEDEN (Jan 15 / Kronor)

SWITZERLAND (Jan 15 / Frs.)

TURKEY (Jan 12 / Tk Lira)

PACIFIC

JAPAN (Jan 12 / Yen)

HONG KONG (Jan 15 / H.K.$)

INDONESIA (Jan 15 / Rupiah)

MALAYSIA (Jan 15 / MYR)

NEW ZEALAND (Jan 15 / NZ $)

SINGAPORE (Jan 15 / S$)

AUSTRALIA (Jan 15 / Aust$)

SOUTH KOREA (Jan 15 / Won)

TAIWAN (Jan 15 / TW $)

THAILAND (Jan 15 / Baht)

AFRICA

SOUTH AFRICA (Jan 15 / Rand)

NORTH AMERICA

CANADA

TORONTO (Jan 15 / Can $)
4 pm close

MONTREAL (Jan 15 / Can $)
4 pm close

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are for 1995/96, except Toronto & Montreal (ratio). ♦ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Jan 15	Jan 12	Jan 11	1995/96 High		1995/96 Low	
Argentina							
General(29/12/77)	(u) 17322.20	17098.11	17898.20	3/1/96		9831.00	9/3/95
Australia							
All Ordinaries(1/1/80)	2233.0	2239.4	2248.7	2274.80	8/1/96	1822.30	8/2/95
All Mining(1/1/80)	1005.5	1019.0	1032.8	1041.80	8/1/96	795.30	8/2/95
Austria							
Credit Aktien(30/12/84)	364.63	367.22	363.86	385.42	2/1/95	328.50	27/10/95
Traded Index(2/1/91)	1024.05	1031.06	1022.77	1086.31	2/1/95	882.15	23/10/95
Belgium							
BEL20(1/1/91)	1613.94	1613.41	1605.50	1624.67	9/1/96	1271.88	9/2/95
Brazil							
Bovespa(29/12/83)	(u) 48466.0	47487.0	49872.00	19/9/95		21382.00	9/3/95
Canada							
Metals Minls♦(1975)	(u) 4790.19	4787.30	5288.57	23/11/95		3605.63	1/3/95
Composite♦(1975)	(u) 4753.01	4771.21	4855.36	9/1/95		3991.41	30/1/95
PortfolioSS(4/1/83)	(u) 2327.39	2334.31	2393.85	9/1/96		1853.36	30/1/95
Chile							
IGPA Gen♦(31/12/80)	(u) 5780.39	5750.48	6363.10	11/7/95		4678.90	9/3/95
Denmark							
CopenhagenSE(3/1/83)	380.28	379.28	376.16	380.28	15/1/96	330.01	29/3/95
Finland							
HEX General(28/12/90)	1678.23	1689.67	1675.01	2332.22	14/9/95	1555.30	29/3/95
France							
SBF 250(31/12/90)	1270.25	1262.73	1255.44	1322.30	12/5/95	1154.41	13/3/95
CAC 40(31/12/87)	1924.40	1907.58	1897.85	2017.27	12/5/95	1721.14	23/10/95
Germany							
FAZ Aktien(31/12/58)	848.95	845.80	836.62	848.95	15/1/96	708.87	30/3/95
Commerzbank(1/12/53)	2458.3	2448.3	2421.0	2458.30	15/1/96	2018.70	30/3/95
DAX(30/12/87)	2359.05	2356.45	2329.51	2359.05	15/1/96	1910.96	28/3/95
Greece							
Athens SE(31/12/80)	935.00	919.46	921.77	982.99	4/8/95	787.16	16/3/95
Hong Kong							
Hang Seng(31/7/64)	10634.50	10540.01	10429.82	10634.50	15/1/96	6967.93	23/1/95
India							
BSE Sens.(1979)	3022.51	3010.21	3021.98	3932.09	2/1/95	2922.16	29/11/95
Indonesia							
Jakarta Comp.(10/8/82)	563.90	550.99	533.76	563.90	15/1/96	414.21	18/4/95
Ireland							
ISEQ Overall(4/1/88)	2300.85	2296.55	2285.81	2298.91	9/1/96	1803.59	23/1/95
Italy							
Banca Comm Ital(1972)	579.34	584.69	586.05	680.54	10/2/95	547.79	5/12/95
MIB General(2/1/90)	982.0	982.0	994.0	1019.00	3/1/96	982.00	15/1/96
Japan							
Nikkei 225(16/5/49)	(c) 20287.42	20377.92	20689.00	8/1/96		14485.40	3/7/95
Nikkei 300(1/10/82)	(c) 298.07	299.72	307.98	5/1/96		222.26	13/6/95
Topix(4/1/68)	(c) 1592.21	1599.88	1632.03	5/1/96		1193.16	13/6/95
2nd Section(4/1/68)	(c) 2081.23	2072.50	2130.85	4/1/95		1481.09	13/6/95
Malaysia							
KLSE Comp.(4/4/86)	1072.65	1061.77	1048.79	1088.84	5/4/95	846.87	24/1/95
Mexico							
IPC(Nov 1978)	(u) 2804.13	2867.27	3081.95	8/1/96		1447.83	27/2/95
Netherland							
CBS TtlRtnGen(End 83)	545.8	547.4	543.1	551.30	9/1/96	422.90	23/3/95
CBS All Shr(End 83)	330.0	331.5	328.9	333.00	8/1/96	285.20	23/3/95
New Zealand							
Cap. 40(1/7/86)	2110.76	2118.70	2120.90	2206.82	20/10/95	1891.43	5/1/95
Norway							
Oslo SE(Ind)(2/1/83)	1290.15	1294.52	1290.08	1305.29	8/1/96	1096.00	10/3/95
Philippines							
Manila Comp(2/1/85)	2776.88	2747.28	2894.73	2959.12	10/7/95	2386.48	20/11/95
Portugal							
BTA(1977)	2571.8	2588.1	2538.3	2801.00	9/1/95	2412.60	22/11/95
Singapore							
SES All-S'pore(2/4/75)	582.73	582.29	574.95	582.73	15/1/96	422.89	23/1/95
South Africa							
JSE Gold(28/9/78)	1580.3♥	1628.3	1660.4	2223.00	2/1/95	1258.20	30/10/95
JSE Ind.(28/9/78)	8479.0♥	8444.4	8314.8	8479.00	15/1/96	6222.00	31/1/95
South Korea							
KoreaCmpEx**(4/1/80)	885.45	878.94	883.96	1027.37	2/1/95	847.08	27/5/95
Spain							
Madrid SE(30/12/85)	325.88	328.06	323.75	329.05	4/1/96	284.06	23/3/95
Sweden							
AffarsvarldenGen(1/2/37)	1712.2	1722.8	1714.7	1822.30	19/9/95	1409.60	23/3/95
Switzerland							
Swiss Bk Ind(31/12/58)	1517.81	1538.00	1534.94	1576.09	4/1/95	1174.89	10/3/95
SBC General(1/4/87)	1125.30	1141.72	1137.10	1165.55	4/1/96	898.58	13/3/95
Taiwan							
Weighted Pr.**(30/6/66)	5027.01	4892.80	4942.62	7051.49	9/1/95	4503.37	14/8/95
Thailand							
Bangkok SET(30/4/75)	1376.00	1375.91	1389.65	1492.84	10/7/95	1135.90	10/3/95
Turkey							
Istanbul Cmp.(Jan 1986)	45237.2	46318.4	44581.1	54893.89	21/4/95	24914.39	23/1/95
WORLD							
MS Capital Intl(1/1/70)	727.4*	728.1	729.0	743.80	5/1/96	588.21	23/1/95
CROSS-BORDER							
Eurotrack 100(26/10/90)	1510.88	1514.02	1504.40	1595.57	4/1/96	1222.41	13/3/95
Euro Top-100(26/6/90)	1345.16	1348.21	1339.01	1370.55	3/1/96	1117.34	9/3/95
JCapDrgns(31/12/88)	(u)	358.50	363.64	368.50	12/1/96	282.07	23/1/95
BIS Brgs Emrg(7/1/92)	158.16	155.75	153.81	158.07	2/1/96	117.35	10/3/95

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x Index)							
Jan	1918.5	1933.0	+21.0	1937.0	1918.5	10,457	32,532
Feb	1926.0	1940.0	+21.0	1942.0	1926.0	85	1,049
DAX							
Mar	2382.0	2376.0	+10.5	2385.0	2364.5	18,598	-
Jun	2394.0	2390.0	+7.0	2395.5	2381.0	1,058	-
OMX							
Jan	1334.00	1317.00	-16.50	1336.00	1316.50	3,493	18,128
Feb	1348.00	1327.50	-14.00	1345.00	1326.50	677	3,606
SOFFEX							
Jan	3286.0	3225.5	-62.0	3300.0	3224.1	9,028	14,513
Feb	3306.0	3234.0	-63.0	3306.0	3234.0	1,559	4,437

** Sat Jan 13: Taiwan Weighted Price 5025.30, Korea Comp Ex 874.48. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. ♦ Montreal ♦ Toronto. (c) Closed (u) Unavailable ‡ IBIS/DAX after-hours index: Jan 15 - 2361.38 +7.49.

US INDICES

Dow Jones	Jan 12	Jan 11	Jan 10	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Industrials	5061.12	5065.10	5032.94	5216.47	3832.08	5216.47	41.22
				(4/1/96)	(30/1/95)	(4/1/96)	(2/7/32)
Home Bonds	105.31	105.21	105.58	105.86	93.83	108.77	54.99
				(10/1/96)	(3/1/95)	(18/10/93)	(1/10/81)
Transport	1908.53	1911.30	1898.48	2082.11	1473.19	2082.11	12.32
				(5/12/95)	(3/1/95)	(5/12/95)	(8/7/32)
Utilities	226.17	226.68	225.80	228.82	183.03	256.46	10.50
				(5/1/96)	(3/1/95)	(1/1/93)	(8/4/32)

DJ Ind. Day's High 5114.23 (5088.78) Low 5000.07 (5002.96) (Theoretical)
Day's High 5080.02 (5096.16) Low 5023.86 (5020.30) (Actual)

Standard and Poors	Jan 12	Jan 11	Jan 10	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Composite‡	601.81	602.69	598.48	621.69	459.11	621.69	4.40
				(13/12/95)	(3/1/95)	(13/12/95)	(1/6/32)
Industrials‡	708.13	707.36	702.38	731.65	545.28	731.65	3.62
				(13/12/95)	(3/1/95)	(13/12/95)	(21/6/32)
Financial	59.72	59.16	58.67	63.88	41.64	63.88	8.64
				(8/12/95)	(3/1/95)	(8/12/95)	(1/10/74)
NYSE Comp.	322.95	323.28	321.41	332.83	250.73	332.83	4.46
				(3/1/96)	(3/1/95)	(3/1/96)	(28/4/42)
Amex Mkt Val	534.64	537.10	535.25	553.58	433.12	553.58	29.31
				(12/9/95)	(6/1/95)	(12/9/95)	(9/12/72)
NASDAQ Comp	1008.23	1011.10	980.21	1069.79	743.58	1069.79	54.87
				(4/12/95)	(3/1/95)	(4/12/95)	(31/10/72)

RATIOS

	Jan 12	Jan 5	Dec 29	Year ago
Dow Jones Ind. Div. Yield	2.33	2.28	2.30	2.73
	Jan 10	Jan 3	Dec 27	Year ago
S & P Ind. Div. yield	2.02	1.95	1.98	2.45
S & P Ind. P/E ratio	18.30	18.95	18.75	18.71

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Micron Tech	10,555,900	32⅝	-3
Motorola	6,738,700	49⅝	-¼
Telefonos	6,701,200	32⅝	-1⅛
Newmont	5,948,180	51⅝	-2
K Mart	4,950,400	7	-⅛
Citicorp	3,200,600	63	+⅛
Wal Mart	3,059,200	22⅝	-⅛
Loral	2,720,300	43⅝	-⅛
IBM	2,664,300	88⅝	-⅞
Amer T & T	2,617,100	65⅝	+⅜

TRADING ACTIVITY

● Volume (million)

	Jan 12	Jan 11	Jan 10
New York SE	379.292	410.047	580.938
Amex	17.929	18.077	24.267
NASDAQ	485.514	525.272	615.341
NYSE			
Issues Traded	3,060	3,084	3,061
Rises	1,104	1,436	520
Falls	1,187	919	1,973
Unchanged	779	729	568
New Highs	73	47	57
New Lows	29	26	38

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
S&P 500							
Mar	604.90	605.85	+1.00	606.75	603.80	87,544	198,155
Jun	610.00	612.00	+1.60	612.00	610.00	313	6,497
	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Nikkei 225							
Mar	20570.0	20290.0	-	20600.0	20250.0	22,024	141,072
Jun	20550.0	20250.0	-	20550.0	20250.0	97	18,589

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ® Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

TOKYO - MOST ACTIVE STOCKS: Friday, January 12, 1995

	Stocks Traded	Closing Prices	Change on day
Kurabo Inds	13.3m	465	+5
Nippon Steel Corp	10.8m	360	-4
Koa Oil Co	9.9m	1190	+110
JDC Corp	8.5m	585	-5
Takara Shuzo	8.3m	1130	+60
Toshiba Corp	7.2m	823	-14
Hitachi	6.6m	1010	-30
Hyogo Bank	6.2m	1	
Gunze	4.3m	685	+30
Sumitomo Mtl Mn	4.1m	1000	-40

4 pm close January 15

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22	12⅜	AAR	0.48	2.2	26	205	21⅞	21½	21⅝	
48⅛	35	AMP	0.92	2.4	19	3482	38¼	37⅝	37⅞	-¼
80¼	53⅞	AMR			16	3135	71⅝	70⅝	70⅞	-⅛
47⅞	36⅜	ASA	1.71	4.0	28	1269	42⅞	41⅜	42⅞	+⅞
44⅞	30¾	AbbtL x	0.84	2.1	19	8952	40⅝	40	40¼	-¼
18⅞	12	Abitibi Pr	0.40	2.7	7	4268	15⅛	14⅝	14¾	+⅛
28½	21	ABM Ind x	0.70	2.5	15	16	28¼	28⅛	28¼	
17½	13⅛	Acplncein			10	68	15⅛	14⅞	15	-⅛
40	21⅞	ACE Ltd	0.56	1.4	9	664	38¾	38⅝	38¾	+⅛
9⅞	8⅛	ACM Gvt In	0.48	5.2	6	237	9⅜	9¼	9¼	-⅛
7¾	6½	ACM GvOpp x	0.66	9.1		65	7⅜	7¼	7¼	-⅛
7½	5¾	ACM Gvt Sp x	0.75	11.1		205	6⅞	6¾	6¾	-⅛
8¾	7¼	ACM Gvt Se	0.24	2.8		293	8½	8⅜	8½	+⅛
9½	7⅝	ACM Man x	0.90	10.0		219	9⅛	9	9	-⅛
29¼	10¼	AcmeClv	0.48	2.7	32	57	18¼	17⅞	18	-⅛
38¾	7⅜	Acme Elect			70	130	8¾	8⅜	8½	-¼
34½	23¾	Acordia	0.72	2.5	15	13	28⅝	28½	28½	-¼
18¾	10⅛	Acuson			39	331	12¾	12½	12⅝	-⅛
19⅝	15⅝	Adams Expr	0.48	2.6	0	134	18¾	18⅝	18⅝	-⅛
38⅞	2⅞	AdvMic			6	8165	18	17½	17⅝	-⅜
9¾	5	Advest Grp	0.16	1.8	12	27	8⅞	8¾	8⅞	
27½	16½	Advo Inc	0.10	0.4	18	2207	25⅛	24⅛	24¼	-⅞
45¼	24 80	Aegon	1.28	2.8	17	257	45½	45	45⅞	-⅜
5⅞	3⅜	Aerflx			6	276	3¾	3½	3½	-⅜
76¾	46¼	AetnaL	2.76	3.9	33	4230	70⅞	67⅝	70⅛	+2⅞

Continued on next page

4 pm close January 15

NYSE COMPOSITE PRICES

Continued from previous page

1995/96 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
33¾	24¼	SaraLee	0.68	2.3	18	8997	30⅛	29⅞	30	-⅛
58	39⅝	SBC Cm x	1.65	3.0	18	4188	58	55⅛	56½	-¼
28⅝	20½	Scana Corp	1.44	5.2	17	578	27⅝	27⅜	27½	-⅛
18½	14½	Scecrp x	1.00	5.6	10	6898	18⅛	17⅞	17⅞	-⅛
11¼	5⅞	SchawkA	0.28	3.4	19	42	7⅝	7⅝	7⅝	+⅛
60¼	37¼	ScherarRP			23	602	44	43¾	43⅞	
60¾	35½	SchrPl	1.16	2.2	19	9406	53⅛	51¾	52	-1⅛
70⅛	50⅛	Schlmb	1.50	2.3	25	3876	66½	65¾	66¼	
29	11¼	Schwab(C)	0.16	0.8	20	2253	19¼	18⅝	18⅞	-⅛
25	20⅛	SchwMaud				1529	u25	24⅞	24⅞	+½
24⅞	11⅞	SciAtl	0.06	0.4	19	1471	14⅛	13⅞	13⅞	
20	16⅛	Scotman	0.10	0.6	11	11	17⅝	17⅝	17⅝	-⅛
40⅝	26⅞	Scripps	0.52	1.3	26	808	39⅛	38⅞	39⅛	+⅛
21½	13⅞	ScuddrNAsF	0.02	0.1		919	17½	17⅛	17½	+½
11¾	8⅝	ScuddrNEuF	0.16	1.4		637	11⅝	11⅜	11½	-⅛
20	13⅞	SeaCnB	0.70	4.1	1	10	16⅞	16⅞	16⅞	
16¼	14⅝	SeaCJ.4625	1.46	9.8		13	15½	15¼	15¼	
54¾	23⅝	Sgate			8	9022	49¾	47⅞	47⅞	-2¼
39½	25⅝	Seagrm	0.60	1.7	24	3109	35⅝	35¼	35⅜	+⅛
22½	15¼	Seagull En			70	1026	19⅜	19¼	19⅛	-⅛
30⅛	18	Sealed Air			23	1035	27¼	26⅝	27	+¼
43⅝	30⅞	SearsR	0.92	2.1	11	8239	43¼	42⅝	43¼	+⅛
20½	16⅞	SecCapSBI	1.24	6.3	23	538	19¾	19½	19¾	
12⅞	10⅞	Seligm Sel	0.84	6.8		126	12¾	12½	12¾	+⅛
38¼	18¼	Sensormat	0.22	1.2	16	2588	18⅞	17⅝	17⅞	-⅞
34¼	21⅞	SequaA	0.60	1.8	15	84	u34¼	34	34	
41	23	SequaB	0.50	1.2	21	64	u41	40¼	40½	

1995/96 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
10⅞	7⅞	Talleyind	0.42	5.3	32	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
17⅛	12½	Talley Pf	1.00	8.2		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
53	37⅞	Tambrds	1.76	3.4	21	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
19¾	9¾	Tandem			11	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
64⅞	35¾	Tandy	0.60	2.1	12	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10½	9	Taurus Mun	0.69	6.7		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3	1⅞	TCCInd			11	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25⅞	20	Teco Energ	1.08	4.2	17	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
61⅞	31⅞	Tktrnx x	0.60	1.4	18	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29¼	24¼	TeleDa	0.93	3.5	3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27⅝	19¾	Teldyn	0.40	1.5	9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44⅛	33¼	TeleEspSA	1.29	3.0	15	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47½	23	Telmex	0.87	2.7	104	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
55¾	41½	Tmplnl	1.20	2.8	8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22⅛	16⅝	TemplEmMk	0.27	1.3		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7½	6¼	TempltGlob	0.60	8.8		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7⅞	6⅞	TempltGlFd x	0.60	8.4		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
50⅞	41⅞	Tnneco	1.60	3.7	11	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
37¼	25¼	Teppco Ptn	2.80	7.5	11	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43	16	Teradyne			12	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7⅛	3⅛	Terex	0.06	1.2	1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
14⅞	9¾	Terra Inds	0.12	0.9	8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
12	7¼	Tesoro			3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
82	58¾	Texaco	3.20	4.2	16	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
55¼	30⅛	Texas Ind	0.40	0.8	9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
83½	34½	TxInst	0.68	1.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
28¼	17	Texas Pac	0.40	1.5	21	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42	30⅛	TxUtil	3.08	7.8	50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3⅞	2⅞	Textl Inds	1.10	40.0	1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

- V -

[illegible]

- W -

[illegible]

- U -

[illegible]

- X - Y - Z -

[illegible]

Prices data supplied by Telekurs

NASDAQ NATIONAL MARKET

4 pm close January 15

- A - [illegible]

- B - [illegible]

- C - [illegible]

- D - [illegible]

- E - [illegible]

- F - [illegible]

- G - [illegible]

- H - [illegible]

- I - [illegible]

- J - [illegible]

- K - [illegible]

- L - [illegible]

- M - [illegible]

- N - [illegible]

- O - [illegible]

- P - Q - [illegible]

- R - [illegible]

- S - [illegible]

- T - [illegible]

- U - [illegible]

- V - [illegible]

- W - [illegible]

- X - Y - Z - [illegible]

AMEX COMPOSITE PRICES

4 pm close January 15

[illegible]

AMERICA

Tech stocks contribute to weakness

Wall Street

Weakness in technology shares contributed to modest losses across the equity market in midday trading yesterday, *writes Lisa Bransten in New York.*

At 1pm the Dow Jones Industrial Average was 11.56 lower at 5,049.56. The Standard & Poor's 500 dipped 2.16 to 599.65 and the American Stock Exchange composite softened 0.73 to 533.91.

NYSE volume was light at 170m shares because some financial markets were closed in observance of the Martin Luther King holiday.

The Nasdaq composite had declined 13.72 points to 994.51 and the Pacific Stock Exchange technology index was off 2 per cent.

Losses in the technology sector spread across the various sectors from computer makers to software developers and semiconductor companies.

Microsoft, the software giant and the biggest company on the Nasdaq, was off $2¼ or 3 per cent at $83, Intuit, a maker of financial software, shed $5¼ or 8 per cent to $60¼ and Broderbund Software retreated $2¾ to $52.

Falling semiconductor companies included Intel, down $1¾ at $54⅞, Novellus Systems, which dropped $4 to $45¼, and Applied Materials, $2¾ cheaper at $32¾.

IBM was among the biggest decliners in the Dow, with a drop of $1⅛ at $84⅞. Other slipping computer makers included Dell Computer, falling $2¾ to $25⅝, Hewlett-Packard, off $1⅛ at $76⅞, and Gateway 2000, $¾ lower at $20⅞.

Elsewhere, Maybelline jumped $2¾ or 7 per cent to $39⅝ after Joh. A. Benckiser, the German consumer products company, said that it was prepared to make an offer to buy the company at a price "materially higher" than the $36⅞ offered by L'Oréal.

Federal Express fell $2¼ or 3 per cent to $70⅝ after warning after the market closed on Friday that third quarter earnings would be "significantly below current Wall Street consensus estimates" because of the blizzard that closed airports across the east coast for much of last week.

Analysts had forecast that Federal Express would earn about 98 cents a share.

Canada

Toronto was lower at midsession, pulled down by a weak gold sector and in the absence of a lead from the US bond market.

The TSE-300 composite index was down 13.85 by noon at 4,739.16 in light volume of 29.6m shares.

Banks were boosted by news that Bank of Montreal had raised its quarterly dividend to 36 cents a share from 33 cents. The shares picked up C$¾ to C$32¼.

Newbridge Networks traded C$⅝ higher at C$64. The company, currently holding a US investment roadshow, said that it was talking to telecommunications equipment companies about the possibility of adapting telephone lines to carry computer and other traffic.

Mexico falls back

Mexico City lost early gains as profits were taken and investors came to the conclusion that the recent round of interest rate reductions was now over. The IPC index was down 40.20 or 1.4 per cent at 2,893.93 by midsession.

SAO PAULO was caught in a holding pattern, with the Bovespa index up 298.75 at 48,765 by early afternoon. Brokers said investors were likely to keep their attention fixed on the deliberations in congress, which was expected to resume discussions on key constitutional reforms during the course of this week.

In BUENOS AIRES the market was slightly weaker by midsession. The Merval index had shed 4.55 to 536.78.

SANTIAGO was slightly easier by late morning as investors concentrated on details regarding the privatisation of Colbun, the state electricity group. The IGPA index had lost 31.66 at 5,748.73.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	+1.10	+7.18	-3.72	-5.90	+2.44	+1.31
Belgium	+0.39	+3.61	+19.82	+18.22	+28.49	+27.07
Denmark	+1.97	+3.99	+8.84	+8.79	+20.16	+18.84
Finland	-0.22	+2.64	-12.80	-10.05	-1.19	-2.27
France	-0.08	+3.02	+4.74	+2.94	+12.54	+11.30
Germany	+1.16	+3.73	+12.06	+9.93	+19.58	+18.27
Ireland	-0.01	+2.28	+21.60	+22.59	+28.41	+27.00
Italy	-0.61	-0.15	-3.49	-5.68	-1.65	-2.74
Netherlands	+0.62	+3.99	+20.65	+19.18	+29.56	+28.13
Norway	-0.41	+3.87	+8.32	+4.40	+12.86	+11.62
Spain	-0.43	+2.90	+21.62	+16.87	+28.36	+26.97
Sweden	-2.77	+2.45	+16.81	+19.67	+36.45	+34.98
Switzerland	-2.07	+0.70	+27.37	+25.78	+43.38	+41.80
UK	-1.31	+0.49	+19.47	+18.26	+18.26	+16.95
EUROPE	-0.63	+1.90	+15.28	+13.84	+20.79	+19.45
Australia	-1.25	+0.37	+19.29	+16.53	+13.35	+12.11
Hong Kong	+0.45	+8.52	+38.98	+25.53	+27.00	+25.61
Japan	-2.89	+3.72	+5.17	+2.74	-1.36	-2.45
Malaysia	+2.40	+8.24	+19.05	+8.97	+9.80	+8.59
New Zealand	-4.24	-0.14	+6.02	+8.21	+13.12	+11.88
Singapore	+0.73	+8.01	+21.34	+12.33	+16.37	+15.09
Canada	-2.07	+1.16	+13.43	+12.17	+16.80	+15.52
USA	-2.29	-2.33	+29.78	+30.55	+32.01	+30.55
Mexico	-2.35	+12.24	+35.37	+22.72	-18.19	-19.09
South Africa	+3.26	+9.62	+38.98	+11.66	+26.65	+25.25
WORLD INDEX	-1.78	+0.90	+17.28	+15.71	+17.30	+16.02

† Based on January 12 1996. © Copyright 1995 Financial Times Limited, Goldman Sachs & Co, Standard & Poor's. All rights reserved.

EUROPE

Frankfurt registers fifth official high for 1996

Optimistic about interest rates and the dollar, FRANKFURT registered its fifth official closing high of 1996. This held in the post-bourse, the Dax index ending 7.49 higher at an Ibis-indicated 2,361.38.

Mr Gebhard Klingenstein, head of research at BZW in Frankfurt, said investors were expecting little in the way of economic growth, but that the fall in bond market yields was diverting money into equities. "This is a liquidity rally, not a rally on fundamentals," he maintained.

Turnover fell from DM11.8bn to DM9.9bn. The broad market had to balance continued strength in cyclicals and dollar stocks against weakness in financials after the Merrill Lynch German bank downgrades.

Mr Klingenstein said that Degussa, up DM10.40 at DM533.60, seemed to be catching up with its earnings record; Hoechst closed DM9.20 higher at DM424.10 on well rehearsed rerating arguments; and Daimler rose DM10.85 to DM759.85 on a report, denied by the company itself, that it would decide on a rescue package for its Fokker subsidiary in just under two weeks' time.

AMSTERDAM focused on Fokker as reports, circulating early in the session, alleged that the aircraft manufacturer was in greater financial trouble than had been estimated hitherto. Fokker condemned the allegations, printed in an anonymous and unsigned fax received by a Dutch newspaper over the weekend, as a hoax; but the damage had already been done and the shares plunged Fl 1.20 or 11.4 per cent to Fl 9.30, although up from a day's low of Fl 6.60.

Dealers said that, in recent months, Fokker's share price had been vulnerable to the slightest rumour. They added that the recovery later in the session might have been driven by news that British Airways was seeking bids for an order worth up to $1bn from the Dutch group and four competitors for the supply of new regional aircraft.

The AEX index closed 1.04 softer at 501.77. Selling pressure in Royal Dutch, Fl 3.60 cheaper at Fl 219.40, was ascribed to portfolio readjustment by US institutions.

PARIS continued to draw comfort from expectations of an imminent cut in interest rates, a hope sufficient to lift the CAC-40 index by 16.81 to 1,924.40. Turnover was light at just under FFr3bn.

Investors were also said to be comforted by a report that the government was preparing a package of economic measures to stimulate growth, and that these would be announced in co-ordination with Germany.

The government forecast yesterday that the domestic economy was likely to move ahead strongly by the middle of the year. According to brokers, hopes were riding high that the Bank of France would ease interest rates after Thursday's meeting of its monetary policy council.

Cap Gemini Sogeti extended Friday's gain, which came as the compnay announced details of its merger with its parent group, Sogeti. The shares advanced a further FFr6.80 to FFr138.50.

Accor receded FFr13 to FFr633 following reports at the weekend, which the French company denied, that it might make a bid for Forte's Méridien hotel chain if Granada's offer for Forte succeeded.

ZURICH remained under pressure as a further round of profit-taking left the SMI index tumbling 59.0 or 1.8 per cent to 3,233.9. The fall took the index through strong support at 3,260 points, with neither the higher dollar, nor firming government bond futures, putting a brake on the decline: this amounted to 4.8 per cent since its all-time high on January 4, with a number of brokers downgrading their recommendations.

Analysts noted that some of the largest losses had been in the index-heavy financial and pharmaceutical stocks, suggesting selling by index-linked funds. Mr Hans Kaufmann at Bank Julius Baer in Zurich, who said that the day's decline had been sharper than most analysts had expected, attributed the fall to a continuing shift of international funds to more cyclical markets, and particularly Germany.

Insurers were among the hardest hit issues. Swiss Re retreated SFr57 to SFr1,214 and Zurich Insurance surrendered SFr14 to SFr323.

Among pharmaceuticals, Roche certificiates relinquished SFr145 to SFr8,390, ahead of sales figures later in the month, and Sandoz dropped SFr24 to SFr982.

MILAN was weak, awaiting political developments as President Oscar Luigi Scalfaro began a round of meetings to form a new government. The Comit index lost 5.45 to 579.24, and the real-time Mibtel index shed 159 to 9,177, reflecting some heavier selling towards the end of the day.

Dealers noted that the day's limited activity was concentrated on blue chips. Among the biggest losers, Montedison lost L27.2 to L873.8 and Eni fell L138 to L5,492.

STOCKHOLM offered contrasts in pharmaceuticals: Astra A fell another SKr7.50 to SKr245.50 after brokers, partly prompted by the company, downgraded their forecasts; but the US/Swedish combination Pharmacia Upjohn rose SKr7.50 to SKr247.50 after it said that it would publish "interesting" information on a major clinical study into a new Aids drug later this week.

Elsewhere, Ericsson B fell SKr3 to SKr124 in line with the telecoms group's Wall Street loss on Friday, and the Affärsvärlden General index dipped 10.6 to 1,712.2.

HELSINKI had its own high-tech depressant, Nokia A falling FM7 to FM155 in spite of a "buy" recommendation from NatWest. The Hex index closed 11.45 lower at 1,678.23.

Neste, the oil company, lost FM1 to FM75 as it said that its 1995 operating profits fell in 1995. Oil worries also hit OSLO, where the total index declined 7.50 to 748.75 on the falling oil price; Norsk Hydro and Saga Petroleum Bs shed NKr2.50 to NKr275 and NKr4.50 to NKr745.50 respectively.

The only Nordic winner was COPENHAGEN, where the KFX index rose 0.43 to 110.44.

ISTANBUL tumbled 2.3 per cent as hopes for a Conservative coalition government seemed destined to remain unfulfilled. The IMKB-100 index lost 1,081.21 to 45,287.23, after rebounding from an early low of 43,950. The index had soared 14.7 per cent last week on rising market hopes of a link between the two rival centre-right parties. However, a dispute over who would become prime minister has proved a stumbling block.

Written and edited by William Cochrane, Michael Morgan and John Pitt

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

Jan 15 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1516.23	1516.03	1515.52	1513.59	1512.30	1511.88	1511.51	1510.88
FT-SE Eurotrack 200	1604.41	1604.42	1605.89	1604.42	1602.89	1602.74	1603.28	1602.89

	Jan 12	Jan 11	Jan 10	Jan 9	Jan 8
FT-SE Eurotrack 100	1514.02	1504.40	1510.98	1527.11	1522.41
FT-SE Eurotrack 200	1602.63	1584.49	1592.67	1610.51	1615.67

Base 1000 (26/10/90); High/day: 100 - 1516.32; 200 - 1606.18 Low/day: 100 - 1510.86 200 - 1600.93 † Partial

ASIA PACIFIC

Taipei gives muted welcome to capital gains tax veto

A less than ecstatic response was offered by TAIPEI to the Taiwan parliamentary veto, last Friday, of proposals to reintroduce capital gains tax.

On Saturday, the weighted index recovered 62.50 or 1.3 per cent to 5,025.30 in response to the veto, with turnover active at T$39.6bn. However, this still left it 2.6 per cent down over the first two weeks of 1996, sadly behind some of its more fortunate neighbours.

Yesterday the market was mixed and cautious, the key index closing just 1.71 higher at 5,027.01 in turnover of T$34.9bn.

Investors switched their attention to the proposed liberalisation of Taiwan's telecommunications industry. Telecoms-related issues outperformed, with Tecom surging by the daily 7 per cent limit to T$33.20 and China Wire and Cable up T$1.40 or 6.4 per cent to T$22.30.

JAKARTA saw sustained, foreign led buying as it climbed 2.3 per cent to a 23-month peak. Index-linked buying in large-capitalisation stocks left the JKSE composite index 12.91 better at the day's high of 563.90.

Foreigners went for Telkom and other liquid asset-rich stocks, said a broker. Telkom added Rp125 at Rp3,250 in active volume of some 7.8m shares; Barito Pacific, Citra Marga and Indorayon also rose on this theme.

MANILA's volume more than doubled, from 3.04bn shares to 7.75bn, as it followed last week's 1.9 per cent gain with a further rise of 1.1 per cent. Here, too, brokers reported strong buying by foreign fund managers, local investors riding on their tails near the close as the composite index put on 31.60 at 2,778.86.

Philippine National Bank, a foreign favourite, leapt 30 pesos or 8.9 per cent to 367.50. Indications of higher half-year profits from Pilipino Telephone left the cellular phone company 1.50 pesos or 5.1 per cent higher at 31 and JG Summit, the holding company, gained 50 centavos or 6.6 per cent to 8.10 pesos on rumours that its food and beverage unit, Universal Robina, had recorded hefty net profits for 1995.

KUALA LUMPUR broke through to a six-month peak in afternoon trading but ended just shy of that level as profit-taking set in. The composite index, which traded as high as 1,075.58, ended 10.78 points up at 1,072.55.

Analysts noted that heavy buying of second line issues kept volumes high as liquidity, rather than fundamental news, again backed the advance of many stocks.

HONG KONG turned its attention to recent underperformers, with China-related issues, in particular, back in favour. The Hang Seng index was ahead 94.49 at 10,634.50 after touching a year's high of 10,657.31. But turnover fell to HK$5.5bn from Friday's HK$8.2bn.

The H-share index of the 17 mainland China companies traded on the exchange jumped 32.98 or 3.7 per cent to 915.63.

Among leading H shares, Shanghai Petrochemical advanced 7.5 cents to HK$2.55 and Tsingtao Brewery firmed 5 cents to HK$2.525.

SINGAPORE was pulled higher by demand for speculatives and bank stocks, on the view that recent rises in stock exchange volume should result in improved earnings this quarter. The Straits Times Industrial index moved up 11.57 to 2,413.59.

SEOUL closed lower for the fourth consecutive session after an early technical rally ran out of steam. The composite index, which peaked at 878.59, finished 9.00 weaker at 865.46. Analysts noted that the market was pressured by rumours, subsequently found to be groundless, that the exchange authorities might launch a price manipulation probe of some small-capitalisation shares.

Kabool went the day's limit down, losing Won600 to Won10,200, and Nam Sung shed Won400 to Won16,700.

BANGKOK ended firmer in spite of running into several bouts of profit-taking throughout the day, and the SET index edged 0.89 higher to 1,376.80.

Dealers said local mutual funds began buying finance issues in the afternoon, pulling the index out of the red.

Thai Military Bank rose Bt2 to Bt108 in active trade, while Advance Paint and Chemical (Thailand), making its debut, climbed to Bt46.75 from its IPO price of Bt42.

SYDNEY eased, weighed down by a resource sector weakened by lower gold and base metals prices. The All Ordinaries index dipped 6.4 to 2,233.0.

WELLINGTON edged down on a typically subdued Monday, and the NZSE-40 Capital index gave up 1.98 at 2,110.76.

Brokers said continued weakness in forestry stocks, and particularly Carter Holt Harvey, 3 cents lighter at NZ$3.00, was the only notable feature of the day.

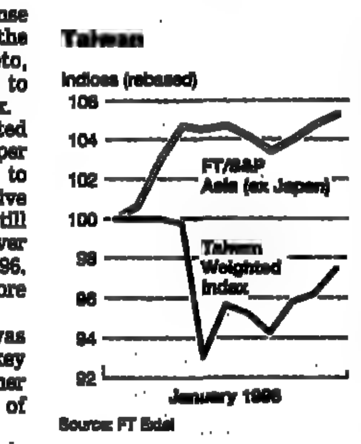
KARACHI followed a gain of 0.9 per cent on Sunday, lifted by speculative trade, by selective buying of energy and chemical shares which left the KSE 100 index 4.72 higher at 1,493.28.

BOMBAY launched its revised carry forward trade system. The market response was relatively mild, the BSE 30-share index closing just 12.80 points up at 3,022.51.

The Securities and Exchange Board of India had banned carry forward trade, or "badla" as it was popularly known, in trading circles in a bid to curb excessive speculation.

● Tokyo and Colombo were closed for public holidays.

Taiwan



Source: FT Extel

South African golds weaken

Gold shares fell back heavily as the price of bullion weakened, although trading conditions were said to be subdued. The sector index lost 68 to 1,560.3, as the overall index shed 13 to 6,710.4, while industrials went the other way with a rise of 34.6 to 8,479.

Dealers said that industrials were encouraged by the recent strength of Wall Street, and they expected golds to recede further on profit-taking following a good performance during the course of last week.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS	FRIDAY JANUARY 12 1996								THURSDAY JANUARY 11 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (81)	192.43	-0.6	184.38	127.41	144.13	171.46	-0.5	3.90	193.60	185.82	127.99	144.63	172.31	196.40	157.95	165.83
Austria (26)	185.14	0.5	177.40	122.07	138.67	138.50	0.8	1.51	184.19	176.79	121.77	137.61	137.44	199.29	167.48	180.97
Belgium (34)	214.03	0.2	205.09	142.17	160.31	156.30	0.4	8.35	213.64	206.05	141.23	159.60	155.68	215.22	166.86	167.75
Brazil (28)	152.69	2.1	146.31	101.42	114.36	273.38	2.1	1.61	149.57	143.56	98.88	111.74	267.80	160.23	86.06	143.22
Canada (101)	149.47	-0.2	143.22	99.28	111.95	147.42	-0.5	2.53	149.78	143.74	99.00	111.88	148.15	153.19	121.81	126.73
Denmark (33)	299.24	0.5	286.73	198.76	224.13	226.74	0.8	1.44	297.36	285.41	196.58	222.15	224.84	299.24	246.19	253.77
Finland (24)	181.73	3.3	174.13	120.71	136.12	166.38	3.5	1.91	175.94	168.87	116.31	131.44	160.72	276.11	171.13	192.27
France (99)	182.03	0.5	174.42	120.91	136.34	140.93	0.6	3.09	181.06	173.79	119.70	135.27	140.11	191.17	157.79	162.10
Germany (60)	169.49	0.9	162.40	112.58	126.95	126.95	1.1	1.88	168.03	161.28	111.08	125.53	125.58	169.49	139.77	142.45
Hong Kong (58)	409.66	1.1	392.53	272.10	306.83	406.67	1.1	3.52	405.05	388.78	267.78	302.61	402.14	409.66	277.40	293.70
Ireland (16)	261.92	1.7	250.97	173.97	196.18	230.88	1.5	3.52	257.48	247.14	170.22	192.36	227.19	262.70	204.97	208.80
Italy (59)	73.23	-0.1	70.17	48.64	54.85	86.06	0.0	1.70	73.32	70.38	48.47	54.78	86.09	82.71	65.45	73.88
Japan (482)	153.10	-1.0	146.70	101.69	114.67	101.69	-0.5	0.75	154.62	148.40	102.22	115.51	102.22	164.82	136.95	154.44
Malaysia (108)	520.55	1.3	498.79	345.76	389.89	513.73	1.5	1.62	513.98	493.33	339.79	383.98	505.96	561.96	398.16	437.83
Mexico (18)	1145.81	-1.6	1097.91	761.07	858.21	9358.20	-2.3	1.48	1164.54	1117.75	769.87	870.00	9581.15	1247.33	847.81	1109.28
Netherland (19)	277.89	0.5	266.27	184.58	208.14	204.72	0.8	3.19	276.53	265.42	182.81	206.59	203.12	280.49	216.66	216.66
New Zealand (14)	78.82	-0.5	75.53	52.36	59.04	63.24	-1.1	4.59	79.21	76.03	52.37	59.18	63.94	85.49	71.01	72.06
Norway (33)	237.93	-0.6	227.98	158.04	178.21	204.33	-0.6	2.05	239.12	229.51	158.08	178.64	205.31	243.79	202.76	207.31
Singapore (44)	429.34	1.5	411.39	285.18	321.59	281.54	1.5	1.43	423.08	406.06	279.68	316.05	277.29	429.34	313.94	343.74
South Africa (45)	421.74	1.2	404.10	280.13	315.88	334.66	1.4	3.53	416.86	400.11	275.59	311.43	330.36	421.74	291.08	312.85
Spain (37)	167.55	0.6	160.54	111.29	125.49	153.79	0.7	3.99	166.75	160.05	110.24	124.58	152.70	168.91	124.10	124.92
Sweden (47)	311.80	0.3	298.86	207.17	233.62	304.38	0.6	1.97	310.92	298.43	205.55	232.28	302.63	324.31	232.23	235.19
Switzerland (40)	234.24	0.1	224.45	155.59	175.45	169.57	0.3	1.59	233.94	224.54	154.66	174.77	169.02	239.55	162.35	165.46
Thailand (46)	184.60	1.2	176.88	122.61	138.26	181.08	1.4	2.25	182.35	175.02	120.55	136.23	178.68	184.60	130.16	139.80
United Kingdom (206)	227.87	0.3	218.35	151.36	170.68	218.35	0.1	4.25	227.28	218.15	150.25	169.79	218.15	232.23	191.53	193.41
USA (634)	245.13	-0.1	234.88	162.82	183.60	245.13	-0.1	2.30	245.40	235.54	162.24	183.34	245.40	253.50	186.66	186.66
Americas (781)	224.11	-0.1	214.74	148.86	167.86	188.32	-0.1	2.30	224.35	215.34	148.32	167.61	188.56	231.18	174.18	174.18
Europe (733)	201.63	0.4	193.39	134.06	151.17	171.46	0.5	3.06	201.00	192.93	132.88	150.16	170.66	204.32	167.26	167.91
Nordic (137)	277.29	0.7	265.69	184.18	207.69	234.66	0.9	1.88	275.48	264.41	182.12	205.80	232.82	295.02	222.22	227.96
Pacific Basin (934)	165.00	-0.7	158.10	109.60	123.58	112.93	-0.3	1.18	166.12	159.45	109.82	124.10	113.25	171.87	145.93	160.30
Euro-Pacific (1567)	180.24	-0.2	172.70	119.72	135.00	135.19	0.1	2.06	180.55	173.29	119.36	134.88	135.10	183.39	154.73	163.37
North America (735)	239.18	-0.1	229.18	158.87	179.15	238.53	-0.1	2.31	239.46	229.84	158.31	178.90	238.83	246.93	185.09	185.09
Europe Ex. UK (527)	182.97	0.5	175.32	121.53	137.04	145.25	0.7	2.41	182.07	174.76	120.37	136.02	144.27	184.61	149.89	150.51
Pacific Ex. Japan (352)	276.88	0.7	265.30	183.91	207.38	244.27	0.8	3.02	275.01	263.96	181.81	205.45	242.46	276.88	211.19	221.06
World Ex. US (1759)	181.74	-0.1	174.14	120.72	136.12	139.29	0.1	2.10	181.99	174.68	120.31	135.96	139.18	184.71	155.42	163.90
World Ex. UK (2187)	198.17	-0.2	189.88	131.63	148.43	165.01	0.0	1.97	198.50	190.52	131.23	148.29	165.02	202.03	163.46	169.96
World Ex. Japan (1911)	227.72	0.1	218.19	151.25	170.56	213.12	0.2	2.63	227.38	218.25	150.32	169.87	212.77	232.30	181.60	181.93
The World Index (2393)	200.79	-0.1	192.39	133.37	150.39	168.78	0.0	2.18	201.04	192.96	132.91	150.19	168.77	204.65	165.92	171.11

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CAPITAL SOURCES: YEAR END REVIEW

Back from the abyss to challenge the summit

Last year receding inflation allowed governments to ease monetary policy and revive debt and equity markets battered by high interest rates. New issues and takeover activity flourished, writes Richard Lapper

Investors and bankers enjoyed a better year in 1995 than many had expected. Helped by falling interest rates and inflation and lower but steady economic growth, many markets produced handsome returns, while the buoyancy of corporate profits and stock prices paved the way for mergers and acquisitions activity to challenge record levels.

After the difficulties of 1994, when rises in interest rates triggered a bond market rout, and an inauspicious beginning to 1995, monetary easing by both Germany and the US set the scene for greater stability in the second half.

Many economists had overestimated the extent of inflationary pressures in the world economy and banks were caught out by successive cuts in interest rates by the Bundesbank and the Federal Reserve.

Easing inflationary pressures translated into a good year for bonds with strong price performances from bonds in core government markets such as the US and Germany – and, in the second half of the year, peripheral markets. In the US the yield on the long bond fell from nearly 8 per cent to 6 per cent over the year. JP Morgan's index of bond market returns shows that investors in US and European bonds made total local currency returns of more than 17 per cent. Sweden was the best performing developed country market, generating returns of more than 20 per cent.

The speed and scale of the rally in the US bond markets over the course of the year took traders and investors by surprise. "Until August nobody realised it was happening," says Mr Joseph Cook, managing director and head of European capital markets at JP Morgan, in London.

Led by bonds, equity markets enjoyed a good year too, with a strong performance by technology stocks in the first half of the year fuelling returns of more than 34 per cent in the US. Mergers and acquisition activity flourished on the back of strong share prices and an increase in corporate profitability in many sectors.

Transactions worth $735.2bn were completed worldwide during 1995, an increase of 49 per cent from the $492.1bn completed in 1994, according to IFR Securities Data.

Unsurprisingly the supply of credit in the world economy has grown. Banks have repaired their balance sheets following the losses of the late 1980s and early 1990s, and are hungry for assets. Over the last few months investors have reduced their holdings of cash freeing greater amounts of funds for investment.

Mr Michael Hughes, chief investment strategist at BZW, says that global credit supply is at its highest levels for 20 years, with both cyclical and longer term demographic and other trends combining to make more money available for investment. "From the supply side, life looks really pleasant. Money is available in the banking system and investors are channelling more into financial assets," he says.

Many economists expect interest rates to fall further. And although there is some debate about the extent to which monetary easing will continue, many in the market argue the levels of inflation in the world's biggest economies – and thus interest rates – will remain relatively low. The possibility of locking in lower financing costs should make it attractive for governments and corporations to raise debt. "With further cuts in German and US rates we could see corporations and governments who don't need the money at the margins being tempted to look at longer-dated financing," explains Mr Cook at JP Morgan.

At the same time several factors are hemming in demand for capital, at least as far as the banker's traditional lower-risk customers are concerned. Governments, for example, are under pressure to cut fiscal deficits and reduce indebtedness, especially in Europe, where administrations are struggling to meet the Maastricht criteria for European Monetary Union.

Many countries are looking at ways to manage existing debt more effectively rather than raise new funds. At the same time many corporations are cash-rich and have had no need to raise debt. Some, particularly in the US, have been keen to buy back their shares rather than raise new equity capital.

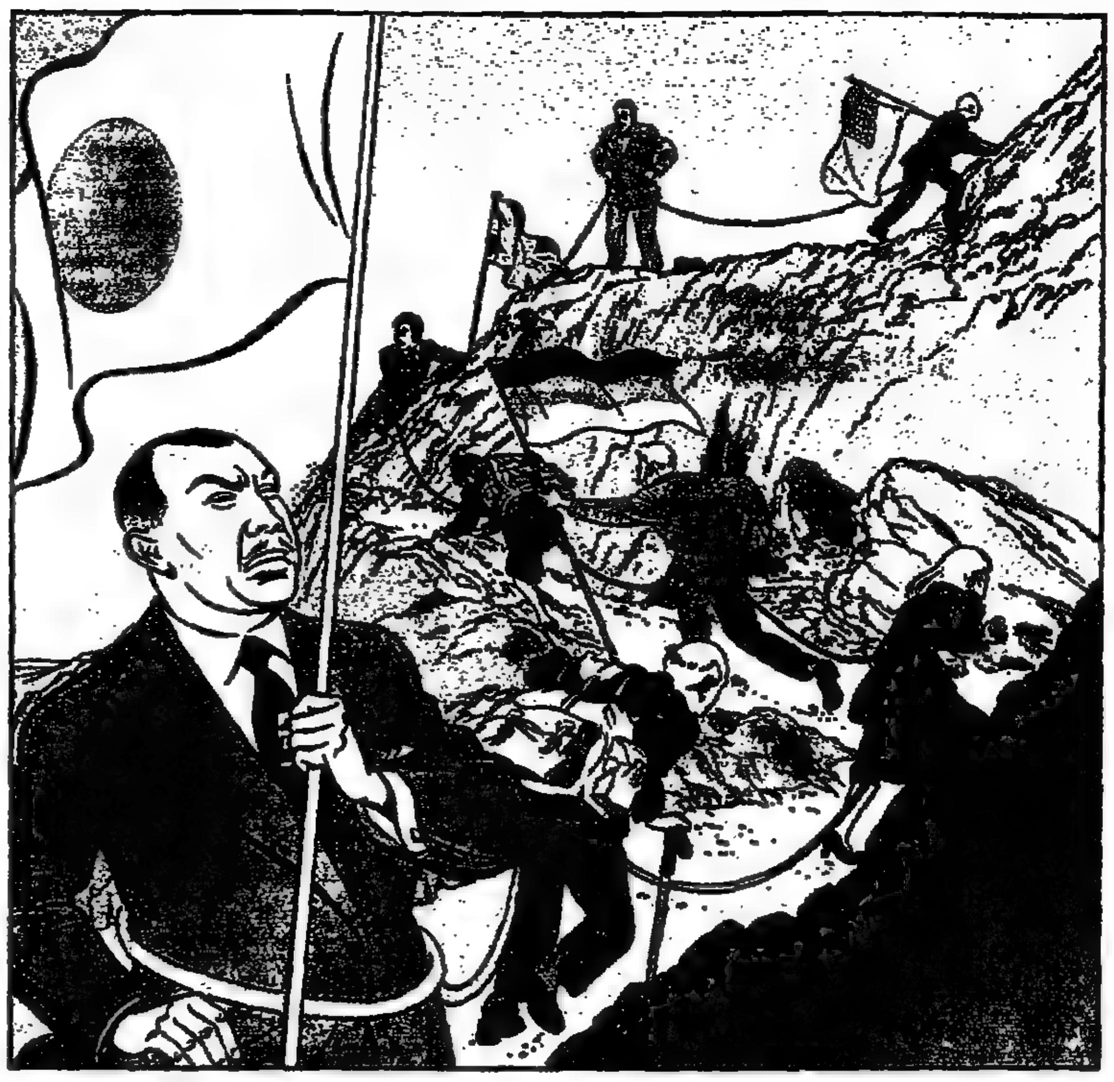
As a result, despite the favourable macro-economic trends, competition among bankers for new business in the bond, equity and loan markets has been intense and seems set to increase.

- Competition has been especially tough in the syndicated loans markets. With banks flush with funds to lend, growth reached new peaks, with the total volume of loans jumping from $289bn in 1994 to $450bn in 1995.

According to the OECD, the general average spread on all internationally syndicated loans was 48 basis points in the first three quarters of 1995, down from 71 basis points during the same period of 1994. Indeed margins are now at their lowest for a number of years.

- Fees have also been falling in the international primary equity markets, where the volume of issuance dipped last year to $53bn, having peaked in 1994 at $58bn. Fee levels for issuers from continental Europe have fallen below 3 per cent in some recent deals. Banks have traditionally charged issuers from developing regions of the world higher fees, reflecting extra risks. But last year a bank consortium agreed to handle one Latin American privatisation mandate for a fee of less than 2 per cent.

- Margins were also under pressure in the international bond markets, although the increase in volume – borrowers issued $463bn of new bonds in 1995, up from $432bn in 1994, according to Euromoney Bondware – has paved the way for a return to profitability after the losses of 1994. Returns are still below their 1993 peak, being in the words of one dealer "sustainable and entirely consistent with a healthier market equilibrium".



- Bankers have seen a sharp fall in margins in both the over-the-counter and exchange-based derivatives markets, where lower volatility has led to falling volumes in some products.

Even margins on more complex structured products, sales of which generated bumper profits in 1993, have dwindled, reflecting the entry of new participants into the market and the greater ease with which such products are now developed – the result of cheaper computer power and greater experience.

In these circumstances bankers and investors are likely to continue the search for new areas of business. In the loan markets for example, they are shifting the emphasis from straightforward refinancings – which accounted for 40 per cent of volume last year – to more complex structured deals.

As yields fell towards the end of 1995 a growing number of investors showed interest in so-called "spread" products, such as eurobonds offering additional yield. "Anything that can give extra yield is likely to be attractive. Investors are hungry for assets and there is not enough to go round," says one banker.

All this is likely to increase the attractions of the emerging markets, where stock and debt market prices in many cases are still below the levels of December 1994, when devaluation in Mexico triggered capital flight from Latin American and some other markets.

The prices of Brady bonds – instruments issued mainly by Latin American and eastern European governments in exchange for distressed commercial debt – are still relatively low and have some way to rise before recovering the peak levels of early 1994.

Corporate bankers could find opportunities in the same markets. Last year the growth of project financing business in the developing world more than offset a small decline in Europe and the US. Many developing countries have launched or are planning ambitious privatisation programmes. Mr Hughes at BZW expects banks to be drawn more to these areas this year. "Banks are having to extend their geographic client and product base. In terms of corporate activity it may well be the year of the emerging market."

IN THIS SURVEY

The prospects for the year ahead and last year in retrospect in corporate finance, investment and the capital markets

Editorial Production: Jonathan Guthrie
Graphics: Ranjit Dhillon
Illustrations: Mark Thomas (with apologies to Hokusai)

US mergers and acquisitions: by Maggie Urry

Bids go back to basics

US acquisitions are being driven by industrial strategies, not quick returns

It has been a record breaking year for the US M&A market. There has not been such a surge in activity since the late 1980s, the era of massive leveraged buy-outs, when giant takeover bids even provided plots for Hollywood movies.

By the end of November, according to statistics from JP Morgan Securities, the value of bids for public companies was up 90 per cent over the same 11 months of 1994.

Yet there are many differences in the type of deal this time round and the more prosaic nature of bids is less likely to inspire film scriptwriters.

That may mean that the takeovers currently taking place are more solidly founded on strategic good sense than the financial wizardry that inspired some of their predecessors. Mr Philip Keevil, managing director in Salomon Brothers' M&A department, says that the current wave of transactions reflects industry consolidation more than the leverage-driven deals of the 1980s. This is especially true, he suggests, where deregulation is changing the economics of an industry.

There have been a string of deals in banking, led by the $10bn agreed merger of Chemical Bank with Chase Manhattan. In the media sector Walt Disney bid $19bn for Capital Cities/ABC, Time Warner bought Turner Broadcasting for $7bn and Westinghouse paid $5bn for CBS.

Healthcare takeovers have included Hoechst of Germany's purchase of Marion Merrell Dow, Pharmacia of Sweden's bid for Upjohn and Blue Shield of California's acquisition of Wellpoint Health Network. US companies have meanwhile made a number of acquisitions of overseas utilities.

Mr Keevil says that changes in industries are forcing companies to get together. Many deals are agreed between the bidder and the target, but there has also been an increase in the volume of hostile bids as buyers force change on targets.

Another difference from the late 1980s, notes Mr Rick Escherich, managing director in JP Morgan's mergers and acquisitions department, is that hostile bids are now more likely to succeed. The 1980s rash of unfriendly bids were often from buyers driven by short-term financial motives rather than long-term strategic goals. A majority were unsuccessful. This time round the strategic acquirers, pursuing consolidation within an industry, have a better chance of winning a hostile bid.

Hostile takeovers are increasingly being made with shares rather than cash. The leveraged buy-outs of the last decade were often based on easily available money and had the aim of breaking up the target to repay debt rapidly. Now investors in a target company are more willing to accept shares in the bidder, as they expect to participate in the benefits of the merger in terms of greater efficiency through a higher stock price.

Mr Keevil says, "In the 1980s people almost never used shares in a hostile takeover." Although low interest rates mean debt is cheap, the rise in the stock market has made equity an inexpensive form of finance too, he suggests.

By issuing shares rather than running up borrowings, the bidder increases the likelihood that the post-takeover combined business will be in good enough financial shape to cope with the restructuring that usually ensues.

For example the bank Wells Fargo is offering shares in payment for its $11bn hostile counterbid for First Interstate.

One exception to the new trend in takeovers is Mr Kirk Kerkorian's approach to Chrysler, the car manufacturer. This proposed deal comes straight out of the 1980s edition of the investment banker's handbook. Mr Kerkorian owns a chunk of Chrysler stock and has said that he has plans to make a leveraged bid of more than $20bn for the car company.

The deal has not yet come to pass. Mr Kerkorian is still snapping at Chrysler's heels, but there is a feeling that the bid was an aberration and that he was just trying to flush out a genuine bidder so he could take a profit on his stake.

One area of the M&A market which has been a disappointment so far in 1995 is that of bids for US companies from international acquirers. With the dollar weak earlier in the year, a flood of cross border deals had been expected. Although transactions have increased, corporate financiers have been disappointed by the small size of the surge.

Mr Mark Francis, managing director at UBS Securities, the New York subsidiary of the Swiss bank, says the volume of cross border deals into the US has been significantly lower than predicted.

This could reflect the fact that US share prices have risen so rapidly this year that non-US buyers may have been deterred. Foreign bidders are much less able to use their shares to pay for acquisitions in the US.

Mr Francis is encouraged by the current level of interest from non-US companies in buying US companies, and believes the pace could pick up in 1996.

There has been an increase in US companies making overseas forays. The utility companies, for instance, have been bidding for groups in the UK and Australia.

Most practitioners expect the M&A market to be busy in the first half of 1996, barring Wall Street-threatening events in Washington, either over the budget deficit or the presidential election race. Mr Keevil says "I expect the current level of activity to continue at least through the first six months of the year."

The speculation that drove many bids in the 1980s and inspired the film Wall Street has been replaced by commercial logic *Twentieth Century Fox*

Top 10 US public takeover advisers 1995

	Adviser	Value ($m)	No. of deals	% share
1	Morgan Stanley	34,698	30	16.4
2	CSFB/Credit Suisse	28,990	26	13.7
3	Salomon Brothers	28,661	31	13.5
4	Goldman Sachs	23,849	23	11.3
5	Lazard Houses	22,897	16	10.8
6	Lehman Brothers	18,493	29	8.8
7	Bear Stearns	16,376	17	7.7
8	JP Morgan	13,053	9	6.2
9	Merrill Lynch	12,087	40	5.8
10	Smith Barney	11,953	29	5.7

Note: credit to target and acquirer adviser. Source: IFR Securities Data Company

UK mergers and acquisitions: by Nicholas Denton

Profit not pride drives deals

Last year M&A volumes soared while investment banks' margins fell on higher costs

Complacency had no place in 1995's takeover boom in the UK. Typically acquirers moved on targets as much out of fear as confidence: to hold their place in intensely competitive national and international marketplaces, rather than to build empires in which chief executives could glory.

Granada, the television and leisure conglomerate, provides the exception that proves the rule with its bid for Forte hotels. And investment banks, while collecting eight-figure fees for advising on the giant deals of 1995, have fought each other for clients and key staff as never before.

The year broke all records. Takeovers of UK companies, at £68bn, ran 170 per cent ahead of 1994 and exceeded the previous peak of £46bn during the 1980s boom, reports Acquisitions Monthly magazine.

The stock market bids which characterise the top of the acquisitions cycle returned. There were more £1bn-plus public bids than ever before: 14 announced in 1995 compared with 11 in 1989. Glaxo's £9.1bn bid for Wellcome in the UK pharmaceuticals industry was the largest ever successful bid in the UK, and Lloyds Bank's £5.9bn takeover of TSB Group the largest deal in financial services.

Such was the tide of acquisition activity that it lifted Baring Brothers to the top of Acquisitions Monthly's UK league table despite the collapse of the Barings group as a result of losses in futures and options trading in the Far East. The merchant banking business advised both Lloyds and Wellcome.

Another beneficiary of the Glaxo deal was Lazard Brothers, the UK merchant bank, which advised the bidder. Among other deals, it also advised Dalgety on the disposal of peripheral divisions and the bolstering of core businesses. The restructuring, which transformed Dalgety into a focused food group, was a classic exercise of the industrial logic which defined UK takeovers in 1995.

Although Schroders missed out on the year's two biggest deals, and so dropped in the league tables, competitors singled it out as a strong performer. Its stability in a turbulent merchant banking industry won over corporate clients. Intimate relationships with other UK houses won appointments as adviser to SG Warburg and Kleinwort Benson on their sale to continental European banks. And Schroders' history as originator of UK electricity privatisation won it the position of adviser to five of the 12 regional electricity companies and A prime place in the busiest sector for takeovers.

Glaxo's purchase of Wellcome was the UK's largest successful bid

Although top positions in the rankings of financial advisers were taken by traditional UK merchant banks such as Schroders and NM Rothschild, many UK corporate financiers concede that 1995 was the year in which US investment banks broke through.

Four US houses – Morgan Stanley, JP Morgan, CS First Boston and Lehman Brothers – were prominent. JP Morgan affirmed a strong franchise in financial institutions, advising on the sale of TSB and SG Warburg among others. Morgan Stanley advised Wellcome alongside Baring Brothers. And Goldman Sachs, although it slipped in the rankings, won plaudits for anticipating the wave of takeovers of electricity distribution companies.

Financial advisers shared in the bonanza with target company shareholders. The City earned about £950m in fees from UK takeovers, according to Acquisitions Monthly. Baring Brothers alone, with work on £19.5bn worth of deals, brought in about £50m in revenues. Baring Brothers corporate financiers can expect to share £10-15m in bonuses.

Yet even as investment banks feast they are setting the conditions for future famine. Lucrative fees have drawn US investment banks and European commercial banks into M&A. Revenues from bond trading and emerging markets have not recovered the heights of 1993, and advisory work is attractive by comparison.

Advising companies on acquisitions is seen by newcomers as the key to client relationships which in turn unlock other business. The field is becoming over-populated.

While Goldman Sachs and Morgan Stanley have long been present in the UK market, other US houses with global ambitions are joining them. Most recently, Merrill Lynch, which has identified M&A as the pinnacle of its investment banking ambitions, hired Mr Guy Dawson and Mr Justin Dowley from Deutsche Morgan Grenfell to build up a domestic UK corporate finance business.

UK clearers such as Barclays Bank and National Westminster Bank are also renewing their attack. Barclays de Zoete Wedd, the investment banking division, recently hired Mr Mark Seligman from SBC Warburg to head its advisory business. It is touting itself as a British investment banking champion.

As newcomers enter the M&A market, companies are loosening their ties with their established advisers. For instance, PowerGen, the UK generator, while retaining SBC Warburg as a named adviser, used Goldman Sachs on its bid for Midlands Electricity.

Brutal industrial competition, as well as driving the acquisition boom, has forced clients to put corporate survival above sentimental attachment to their UK merchant banks. In a frenetic takeover market, companies need fall-back advisers in case one faces a conflict of interest in a deal and steps down.

The retinue of advisers to FTSE-100 companies is increasingly large: Zeneca, for instance, has appointed BZW in addition to SBC Warburg and Goldman Sachs. Moreover, companies in industries such as electricity distribution and pharmaceuticals operate in a more and more international arena. Many facing the possibility of a crossborder bid are opting for US advisers in addition to their UK house bank.

The bout of takeovers in investment banking, which itself fuelled M&A activity in the first half of the year, has further weakened established connections. The acquisition of SG Warburg, Baring Brothers and Kleinwort Benson by continental European banks has demolished the patriotic argument for advisory relationships. And the traumatic 100-day integration of Swiss Bank Corporation's investment banking business with that of Warburg has shaken loose some of the names on the UK's longest client list.

At the same time, a UK merchant bank with a new deep-pocketed backer can make a formidable competitor. A foretaste was SBC Warburg's daring dawn raid on Sweb, the regional electricity company, and its fine judgement of the price Southern Company of the US would have to pay. The acquisition was the cheapest in the sector.

In the immediate future, there is enough room in the UK for the traditional merchant banks, the aspiring European commercial banks and the US investment banks with global ambitions. For 1996, the M&A industry expects more deals between financial institutions, as well as bids made to beat a Labour election victory and a stricter competition policy. Investment bankers predict activity will remain at 1995's record level, with leeway of no more than 20 per cent up or down.

But competition is putting pressure on underlying profitability. Poaching of leading corporate financiers is expensive. Guaranteed remuneration over two years and compensation for abandoned bonuses is typical. Competition for clients is reflected in languishing fee rates for straightforward "vanilla" transactions.

Rivalry manifests itself also in an increase in expenses as investment banks vie to provide the best service. The need for groups with specialist knowledge of industries such as pharmaceuticals and telecommunications, alongside the bankers who execute a deal, has become a costly article of faith.

With expansion by US investment banks and European commercial banks, at least a dozen determined and credible premier-league corporate finance businesses contend in the UK M&A arena. When the notoriously volatile takeover cycle inevitably turns, that will be too many, rival investment banks agree. Each holds to another, painfully incompatible belief: that it will be one of the survivors.

Top 10 UK takeover advisers 1995

	Adviser	1994 position	No. of deals	Value (£m)
1	Baring Brothers	10	8	16,760
2	Lazard Brothers	5	10	11,552
3	Morgan Stanley	-	6	11,437
4	NM Rothschild	7	11	9,278
5	JP Morgan	12	3	7,959
6	Schroders	2	16	7,785
7	Kleinwort Benson	9	13	6,472
8	Goldman Sachs	4	7	6,306
9	SBC Warburg	1	14	5,706
10	Deutsche Morgan Grenfell	6	14	5,439

Note: only merchant banks with two or more public bids ranked. Source: Acquisitions Monthly

Continental European mergers and acquisitions: by Nicholas Denton

Foreign culture takes root

Anglo-Saxon methods are winning supporters among bidders and shareholders

Shareholders, long subordinate in continental Europe, are flexing their muscles, precipitating change in the M&A market. They have proved more willing and able than ever to entertain bids which defending chief executives oppose. And investors' pressure for higher returns has helped focus executives' minds. Costly empire building has gone into reverse as conglomerates concentrate on profitable core businesses and divest peripheral units.

Anglo-Saxon corporate practices such as the takeover and demerger have taken root. And with them, US investment banks have established a dominant position as advisers. In 1995 Morgan Stanley, JP Morgan and Goldman Sachs - with $46bn, $40bn and $29bn worth of completed deals respectively - took three of the top four places in the European league table of investment banks compiled by IFR Securities Data.

In 1995 public takeovers broke new ground in at least seven European countries. Switzerland experienced its first hostile bid when International Paper of the US sought to acquire Holvis, the paper distributor. The attempt failed but only after Holvis and Morgan Stanley, its US investment bank, employed a panoply of defences: finding a white knight in BBA, the UK industrial company and locking up the friendly deal by selling a Holvis subsidiary to BBA.

In Italy Credito Italiano's $2.4bn acquisition of Credito Romagnolo followed a fiercely contested battle for the Italian bank in which four counter offers were made. It was also a battle royal among big investment banks, most of which were involved, among them JP Morgan as adviser to Credito Italiano, and Morgan Stanley and Goldman Sachs as defenders of Credito Romagnolo.

The acquisition by Banco Comercial Portugues of Banco Portugues do Atlantico for $2.1bn broke all Portugal's M&A records. The deal, on which Merrill Lynch advised the bidder and Goldman Sachs the target, was the largest bid in Portugal of any sort. It was also public and hostile: BPA was a quoted company and its management opposed the offer.

Germany witnessed a bizarre battle for control of Postbank, a bank spun off from the post office. Deutsche Post, its former parent, joined Deutsche Bank in a consortium to offer DM4bn ($2.7bn) for the group. Deutsche Post and Postbank were competing for the favour of the German government, rather than the stock market. The state was the only shareholder. But the bid was technically hostile, a first for Germany, as Postbank's management resisted it. And it was played out in the open.

Eastern Europe's nascent markets matured too. Stratton Investments of the US formed an alliance with the local Harvard group of funds to raid seven companies in the Czech Republic and seize command. It was a sharp demonstration of shareholder power in a former communist country whose economy was largely state-owned until five years ago. Schroders ensured Hungary's first stock market bid, of pharmaceuticals company Pharmavit, was done by the book, in fact by the "blue book" which lays down the rules governing UK takeovers.

These relatively novel deals have, along with economic recovery, stimulated deal making in continental Europe. IFR Securities Data calculates acquisitions of European companies announced in 1995 were worth $166bn, 40 per cent more than in 1994, and matching the peak of the last cycle in 1990. Another impetus is gathering as managements respond to investors' growing aversion to amorphous conglomerates. The demerger, which became the fashion for the UK and US earlier in the 1990s, has come to continental Europe and particularly Germany.

The most dramatic development was the announcement in November of a fundamental restructuring of AEG, the electronics unit of Daimler-Benz. AEG, one of the most famous names in German industry, said it would dismantle itself by turning two of its largest divisions into separate legal entities and closing down its Frankfurt headquarters.

It was not alone. Mannesmann, the German conglomerate, sold one of its units, bringing in Goldman Sachs to handle the transaction. Hartmann & Braun, which manufactures systems for power stations, went for about DM1bn to Elsag Bailey Process Automation of the Netherlands. Krupp Hoesch, the German steelmaker, retained Merrill Lynch to sell Orenstein & Koppel. Hoechst, the German chemicals producer, sold its Schwarzkopf subsidiary. And Pharmacia, the large Swedish pharmaceuticals company, finally broke away from Volvo, the Swedish car maker which had controlled it.

This is the tip of the iceberg, bankers say. Some big German conglomerates are in discussions with the tax authorities on the fiscal treatment of demergers. They presage further break-ups. The big prizes for advisers remain: the giant industrial conglomerates of Daimler Benz and Siemens. In the US and UK, frenetic acquisition activity has nearly exhausted some sectors of targets. In UK electricity distribution there are fewer deals to tout. By comparison investment banks have barely touched continental Europe.

Top ten European takeover advisers 1995

	Adviser	Value ($m)	No. of deals	% share
1	Morgan Stanley	45,744	31	16.3
2	JP Morgan	40,325	31	14.4
3	Baring Brothers	36,549	33	13.1
4	Goldman Sachs	29,785	39	10.7
5	Lazard Houses	29,401	46	10.5
6	SBC Warburg	27,303	33	9.8
7	Schroders	19,725	42	7.1
8	Rothschild Group	19,117	57	6.8
9	CSFB/Credit Suisse	17,858	48	6.4
10	Deutsche Morgan Grenfell	13,757	78	4.9

Note: European target, acquirer any nation. Source: IFR Securities Data Company

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International bond markets: by Conner Middelmann

DM bonds grow fastest

Eurobond investors are likely to favour higher yielding issues during the rest of 1996

The eurobond market will find its performance during 1995 a hard act to follow.

A bond-friendly economic environment of slow growth, low inflation and relatively stable currencies combined with strong investor demand to increase new issue volume and secondary market prices, resulting in healthy returns for investors and underwriters.

"Last year marked a return to profitability for many firms who had suffered in 1994," says Mr Eden Riche, a syndicate manager at Morgan Stanley. "They were not the sort of supernormal profits created by the boom conditions of 1993, but rather, sustainable, fair levels consistent with a healthier market equilibrium."

Last year borrowers issued $453bn of new international bonds, up from $432bn in 1994 and topping the previous record of $442bn in 1993, according to Euromoney Bondware, a UK-based capital markets database.

The largest percentage of new issuance is still accounted for by US dollar bonds, although their market share fell to 35.6 per cent in 1995 from 38 per cent in 1994. One of the most notable trends was the explosive growth in D-Mark issuance, with market share growing from 9.3 per cent in 1994 to 18.5 per cent in 1995. Yen deals represented 15.3 per cent of total new issue volume, down slightly from 16.5 in 1994.

Issuance in the US dollar sector was restricted for most of the year by tight spreads for interest rate swaps. These narrowed sharply in February amid widespread expectations of a fall in US interest rates. That reduced arbitrage opportunities for borrowers wishing to issue in the more liquid market for fixed-rate Eurodollar bonds and swap the proceeds into floating-rate funds, and increased funding costs.

"Interest rate arbitrage has been episodic and frequently difficult to achieve, so that in a period of low absolute rates some borrowers may think about reverting to fixed rate targets," says Mr Roger Bates, a director of syndicate at Deutsche Morgan Grenfell. In the current environment, he says, it is hard to see any reason why spreads should widen. "Swap spreads are only likely to change when people think there's a possibility of interest rates rising," he adds.

US dollar issuance was sustained by the hunger of Swiss and Benelux retail investors for dollar paper, preferably in the two to five-year maturity range, amid high redemptions of dollar bonds in the closing months of 1995.

This enabled borrowers - albeit only top-quality ones - to raise funds at interest rates close to, or even below, those on US Treasuries. Demand for these deals often drove their yield spreads even deeper into negative territory.

The only swap window that stayed open all year was in five-year D-Mark paper, which provided borrowers with highly attractive funding opportunities due to a technical aberration. Although at times the sector got severely congested by the load of new supply, the D-Mark's status as Europe's leading currency, reinforced by the debate over European Monetary Union, ensured investors eventually mopped up any D-Mark assets.

Another factor that boosted D-Mark volume was heavy issuance of big internationally-targeted *Pfandbriefe* – German mortgage-backed bonds – of which more than DM50bn came to the euromarket last year. Sceptics say that the bulk of new issues of this hitherto domestic instrument are still placed with German institutions.

The D-Mark is expected to remain a popular currency in 1996. "The refinancing need for international issues falls from DM48bn in 1995 to DM38bn this year, but with ten-year bund yields flirting with 6 per cent, borrowers are likely to be attracted by the opportunity to lock in low funding costs," predict analysts at IBJ International.

One of last year's most striking developments was the insatiable hunger of Japanese investors for yield. With Japanese interest rates and bond yields close to historical lows and high-yielding bank deposits maturing en masse, investors either plumped for higher-yielding yen-denominated bonds by lower-credit issuers, including many emerging market borrowers, or for slightly higher-rated bonds in other currencies – notably US and Australian dollars. Zero coupon issues, which involve only one foreign exchange operation during their lives, were particularly popular, as were dual currency bonds with coupons paid in Australian dollars.

Overwhelming retail demand enabled borrowers to obtain funding levels they were unlikely to achieve in other markets – to the point where some tightly-priced deals exploited Japanese retail investors' ignorance and hunger for yield.

The largest of the retail-targetted deals was a $2bn offering of bonds for the Kingdom of Sweden, which, while offering a 400 basis point pick-up over Japanese government bonds, yielded some 40 basis points below US Treasuries.

New currencies were a feature of last year's issuance. The biggest volume was recorded in the fledgling South African rand sector – 16 deals worth $987m, according to Euromoney Bondware. The rand was followed by the Czech koruna, with seven issues worth $997m. An assortment of maiden offerings also came in the Estonian kroon, the Russian rouble, the South Korean won and the Taiwanese dollar.

There were also some new borrowers, especially from Eastern Europe: Poland, Latvia and Lithuania made successful debuts. Other countries in the region, including Slovenia, Romania and Croatia, are expected to make their first forays into the international bond market this year.

US government agencies, including newcomers to the eurobond market such as the Tennessee Valley Authority, were active borrowers, many of them issuing callable bonds, which have traditionally been more popular in the US than in Europe. "There is growing international acceptance of callable structures that typically offer higher coupons than are available on conventional non-callable bonds," says Mr Bates of Deutsche Morgan Grenfell.

The number of asset-backed bond issues rose, with increased demand from investors outside the US. "In this low yield environment, people will go for anything that offers a slightly higher yield," comments one dealer.

The pursuit of yield is likely to remain a dominant theme in 1996 and could favour lower-rated corporate borrowers. At the same time sovereign and supranational borrowing could contract, helped by stable economic growth and governments' desire to achieve balanced budgets.

While the benign interest rate environment that buoyed international bond markets last year is likely to persist in 1996, double-digit returns are unlikely to be replicated as market prices have already moved in response to much of the good news.

Issuance is set to increase, raising the possibility of periods of over-supply. Analysts at IBJ calculate that redemptions of international bonds will top $250bn this year, after $230bn in 1995, with March, April and December carrying the heaviest refinancing burdens.

So while the eurobond market is heading for new record volumes, issuance may be rendered difficult at times by the scarcity of opportunities for interest rate arbitrage and competition from a very liquid and highly competitive banking market. The profitability of investment banks placing new issues rose last year, giving the competition between them new impetus.

Top 10 bookrunners of international bonds 1995

		Whole year 1995[1]			Whole year 1994[2]			
	Manager or group	US$m	No.	%[3]	Rank	US$m	No.	%[3]
1	Merrill Lynch	30,207	187	6.51	1	35,438	169	8.22
2	SBC Warburg	25,990	147	5.6	3	25,852	169	6.00
3	CSFB/Credit Suisse	25,894	147	5.58	2	27,501	144	6.38
4	Nomura Securities	23,915	194	5.16	5	21,753	107	5.05
5	Morgan Stanley	23,107	152	4.98	8	16,631	98	3.86
6	Deutsche Morgan Grenfell	19,391	81	4.18	11	13,592	73	3.15
7	Daiwa Securities	17,998	119	3.88	10	15,260	100	3.54
8	JP Morgan	17,599	115	3.80	9	16,167	91	3.75
9	Lehman Brothers	17,532	82	3.78	6	16,894	92	3.92
10	Union Bank of Switzerland	15,747	113	3.40	7	16,829	79	3.90

[1] Rankings for 1995 based on 3,327 deals worth $463.5bn

[2] Rankings for 1994 based on 3,094 deals worth $431.1bn

Note: [3] = % of total market

Source: *Euromoney Bondware*

UK Gilts: by Graham Bowley

Reforms aim at cheaper funds

Yields tightened during the year thanks to economic stability and market reforms

Last year brought fundamental technical change to the market for UK government bonds, or gilts, as well as a sharp rally in prices as investors worldwide warmed to fixed-interest securities.

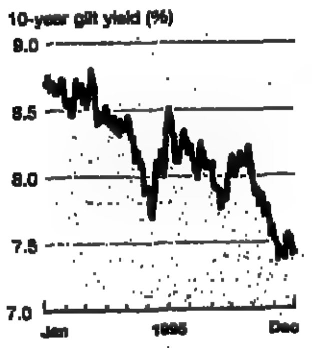
A drive to attract foreign investors and cut the yield on gilts relative to those of securities issued by other countries prompted the Bank of England and the Treasury to usher in reforms on a par with equity market liberalisations in the 1980s.

Their aim was to cut the government's borrowing costs. The UK now pays from half to more than one percentage point more than most other industrialised countries to service its debt – due in part to its unwillingness to modernise capital raising despite increasing competition for overseas funds.

The UK authorities announced the introduction of an open market in gilt sale and repurchase agreements, or repos, which took effect this month. Already available in other countries such as the US and France, repos allow all market participants - and not just gilts marketmakers - to borrow and lend bonds.

UK

10-year gilt yield (%)



Source: FT Extel

The bank and the Treasury unveiled a more highly structured issuance calendar to increase the predictability of the issuance process. They also proposed fundamental changes to the tax treatment of gilts, which in part paved the way for the introduction of strips. These securities, which are available in other markets such as France and the US, allow the coupon and principal of a government bond to be split and traded separately. They are useful for pension fund and insurance company investors who wish to create a portfolio of assets that more accurately matches their liabilities than conventional bonds do. Strips are due to be introduced this year, when the repo market is fully operational.

The tax changes sent the gilts market into paroxysms when they were initially proposed in May. The Treasury announced that whereas before only coupon income was taxable, capital gains from gilts investments would become subject to income tax in future.

Many investors who had bought low-coupon gilts in hopes of making tax-free capital gains cried foul and the price of low coupon gilts tumbled. Eventually the Treasury applied a threshold of £200,000 on any individual's holdings, below which private investors would be free of the new tax arrangements. This exempts 99 per cent of private investors from capital gains tax. At the Budget in November the chancellor finally decided to exempt all private investors.

In the secondary market the year was full of incident. The Mexican financial crisis sent a shiver through all international financial markets, while the collapse of Barings dented confidence on the domestic front. Concern over the weakness of Mexico and other emerging markets was transferred to the high-yielding countries of Europe. Investors participated in a "flight to quality", dashing for cover into the "core" European markets at the cost of the "peripheral" markets of Italy and Spain. The market was caught in the cross-fire and yields were pushed upwards.

Gilts were buffeted on a weekly basis by the release of new economics data. This year the figures showed a gradual slowdown in the UK economy and therefore generally supported the securities.

Prices were also driven by monthly monetary meetings between the chancellor of the exchequer, Mr Kenneth Clarke, and the governor of the Bank of England, Mr Eddie George. Last year they presided over two moves in interest rates - a move upwards by ¼ percentage point to 6.75 per cent in February and in December the first cut for almost two years, by ¼ point to 6.5 per cent.

The new monetary policy framework of regular monthly meetings with the publication of the full minutes of each meeting soon afterwards was seen as adding to the transparency and accountability of economic policy and enhancing its credibility – and thus bolstered gilts prices.

The only dark cloud crossed the horizon in May when the governor pressed for a further rise in interest rates, advice the chancellor ignored.

Gilt prices tumbled as the suspicion grew that Mr Clarke was acting for political rather than economic reasons. He was vindicated in the eyes of the market as the economy slowed and inflationary pressures remained under control. Prices recovered accordingly.

Another clash – this time on the political stage - also led to a tumble in gilts prices. In June Mr John Redwood, then secretary of state for Wales, challenged prime minister Mr John Major for the leadership of the Conservative party. The uncertainty that this contest bred caused the 10-year yield premium charged on gilts over German government bonds to jump sharply higher.

In September Mr Theo Waigel, the German finance minister, prompted a sharp drop in all financial markets, including gilts, when he cast doubt on Italy's ability to participate in the first stage of European monetary union. But the main theme throughout 1995 was one of falling yields as the US economy slowed. Subdued inflation and declining short term interest rates in the US rallied Treasury bonds. In the UK the 10-year gilt yield dropped from around 8.7 per cent in January 1995 to 7.4 per cent at the close of the year.

International syndicated loans: by Antonia Sharpe

Big volumes squeeze margins

A virtuous circle of cheap funding and plentiful business made 1995 a record year

Most bankers agree that 1995 was an exceptional year in the international syndicated loans market. Volumes reached a record high as borrowers took advantage of low lending margins to refinance existing credit facilities.

According to data compiled by Euromoney Loanware the volume of international syndicated loans, excluding the US syndicated loans market, jumped from $239bn in 1994 to $450bn in 1995. The figure was boosted by refinancings, which made up 40 per cent of the total. The previous record was achieved in 1988 when volume reached $295bn.

Although banks complained bitterly of the severe erosion of lending margins, their own cash-rich situation aided the fall. Stiff competition among banks to lend to clients has halved margins over the past two years. They are now at levels last seen in the mid-1980s.

Companies flocked to the syndicated loans market to refinance their facilities or to raise fresh funding because the terms on offer had fallen below the interest rates they would have had to pay in the bond markets.

At the same time as renegotiating facilities at much cheaper levels, corporate borrowers also took advantage of their stronger negotiating position to wrest other concessions from their bankers, such as the weakening or complete removal of covenants.

Banks met most of their clients' demands during the first half of the year. By the start of the autumn they were increasingly reluctant to participate in aggressively-priced deals, even if that meant putting *their relationships with clients* at risk.

The deal which many bankers regard as the turning point in the battle for finer terms was a £700m facility for BTR, the UK industrial group well-known for driving a hard bargain with its bankers. BTR secured a margin over the London interbank offered rate (Libor) of 11¼ basis points, the lowest level achieved by a UK corporate in the current cycle.

Several banks declined to come into the loan because of they thought the margin it carried was excessively low, though a few of them were strong-armed into the transaction at the last minute.

Soon after the BTR deal, Hanson, the Anglo-American conglomerate, settled for a margin of 12½ basis points on a £1.5bn facility, which was taken by the market as a strong sign that pricing had stabilised at the new level.

Another feature of margins last year was the "Japan premium" – an increase in the overseas funding costs of Japanese banks which emerged in the autumn due to concerns about the health of the country's banking system.

The rise in costs, which was especially acute for second tier institutions, restricted Japanese banks' activities in international syndicated loans for some weeks during the autumn. Usually they are the largest single group operating in the market, with a share of about 15 per cent.

Although the big banks rode out the storm – the premium virtually disappeared by the end of the year – the episode helped to underpin the market's view that more selective lending by the Japanese would prevent margins from falling much further.

Bankers believe that although most corporates which wanted to refinance facilities have already done so, top quality names will still be able to achieve margins of less than 20 basis points in the coming year for straightforward credit facilities or for working capital.

By contrast, they do expect some widening in margins for corporate borrowers with lower credit ratings and for eastern European countries. These clients have been able to cut their margins dramatically over the last year. For example margins on loans to the Czech Republic have dropped from about 150 basis points over Libor 18 months ago to about 20 basis points recently.

"Banks are becoming more analytical about the risks involved in lending to medium-ranked credits so we are likely to see the differential widening between them and the top-quality borrowers," says one banker.

Although volume in 1996 is not expected to break the record achieved in 1995, bankers are gearing up for a busy year in the expectation that M&A activity will continue.

After refinancings, acquisition financing was the busiest part of the loans market in 1995, particularly in the UK where M&A activity was widespread. Competition among banks to finance acquisitions meant that here too the premium which companies used to have to pay for this sort of financing virtually disappeared.

Perhaps the most important takeover for the loans market was Glaxo's takeover of Wellcome, for which Glaxo took out £8.1bn worth of bank loans. Banks also financed the takeovers of various regional electricity companies and could be called on to fund Granada's hostile bid for Forte.

As well as financing acquisitions, bankers are likely to provide loans to fund smaller takeovers resulting from big cross-border M&A transactions.

"Money is likely to be put to work investing in the equity side of business," says one banker, adding that the strong performance of stock markets should encourage companies to spin off non-core holdings via leveraged buy-outs (LBOs) and management buyouts (MBOs).

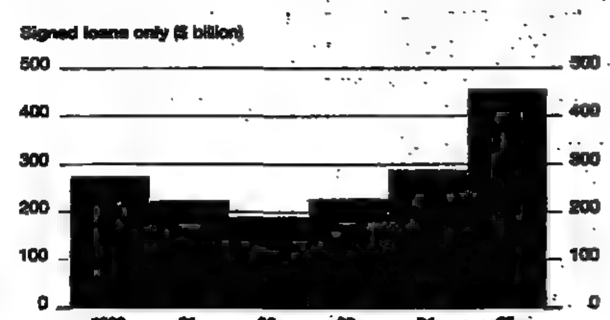
Several big flotations are planned for early 1996 which are likely to be accompanied by large credit facilities, notably the privatisation of Railtrack in the UK.

Loans activity is expected to shift emphasis from straightforward refinancings to more structured and complex transactions. This should help prevent further erosion in lending margins. "Financing M&A type transactions usually commands decent fees and lending margins so banks will be less inclined to reach down the credit spectrum to generate business," says one loans specialist.

Some bankers fear that competition among banks to get involved in LBOs and MBOs could lead to problems later on because of the high risks associated with highly-geared transactions. "Many of the bad debts of the year 2000 will crystallise in 1996," predicts one banker.

International loan volume

Signed loans only ($ billion)



Source: Euromoney Loanware

Top 10 international loan arrangers 1995

	Manager	Whole year 1995[1] US$m	No.	%[3]	Whole year 1994[2] Rank	US$m	No.	%[3]
1	Citicorp	36,212	180	7.9	3	13,924	144	4.9
2	JP Morgan	33,381	89	7.3	9	8,051	57	2.8
3	Deutsche Morgan Grenfell	25,308	141	5.5	8	8,145	89	2.9
4	NatWest Markets	25,140	157	5.5	2	15,144	180	5.3
5	BZW Syndications	23,844	136	5.2	4	11,660	112	4.1
6	Union Bank of Switzerland	19,068	117	4.2	11	7,096	90	2.5
7	Chemical Bank	15,006	101	3.3	1	17,327	108	6.1
8	ABN-Amro	13,624	149	3.0	5	9,682	105	3.4
9	Bank of America	12,630	120	2.8	15	5,246	74	1.9
10	HSBC Group	11,907	113	2.6	6	8,805	135	3.1

[1] Rankings for 1995 based on 2,814 deals worth $458.8bn

[2] Rankings for 1994 based on 2,823 deals worth $283bn

Note: signed loans only, ranked by equal apportionment. 3 = % of total market

Source: Euromoney Loanware

Structured finance: by Patrick Harverson

New asset classes win US investors

Low issuance of mortgage-based deals was offset by strong asset-backed activity

Last year was mixed for securitisation worldwide, with a slump in the US mortgage-backed securities market countered by record breaking activity in asset-backed securities and some interesting developments in Europe.

Issuance of asset-backed securities in the US reached record levels with volume topping $107bn, almost double the previous year's total. The increase was fuelled by big growth in credit card securitisation and strong demand from investors for triple-A rated paper.

The year was also categorised by innovation, with non-traditional asset classes, such as student and car loans and below-prime rated mortgage loans, proving increasingly popular among US investors shopping around for the best returns in a environment of low yields.

The US is expected to keep up the pace this year, with Citibank reportedly considering issuing the asset-backed market's first 30-year bond and other issuers considering deals denominated in non-dollar currencies.

Record volumes in the asset-backed market helped make up for a big drop in activity in the issuance of US mortgage-backed securities, where volume fell from $178bn to $47bn. Analysts blamed the decline on low interest rates. They prompted heavy refinancings, which shrank the pool of available assets.

In Europe the mortgage-backed business showed signs of life, having been badly becalmed since the housing market in the UK – by far the biggest in Europe – slumped in the early 1990s.

There has been encouraging activity in countries new to securitisation, such as Spain, Ireland and Germany, and in the issuance of securities backed by assets other than residential mortgages, for example credit cards and trade receivables.

Total issuance of all forms of asset-backed securities in Europe is still dwarfed by activity across the Atlantic, primarily because of the lack of large homogeneous pools of assets. According to Moody's Investor Service, the ratings agency, $7.4bn of asset-backed securities were issued in Europe during 1995.

Although that total represented a sizeable drop from the $17.7bn recorded in 1994, bankers detected some positive trends within this shrinking market.

In the UK mortgage-backed market, business remained subdued with the main originators, the big banks and building societies, under no great pressure to take assets off their balance sheets by securitising them. Only a few centralised mortgage lenders are left in the market in the wake of the housing market slump and considerable consolidation among building societies.

One of these, National Home Loans, ensured the year ended on a positive note by issuing £122.5m of securitised floating-rate notes. The deal, led by JP Morgan, attracted good demand despite the record tightening of spreads that was a feature of the market last year.

Bankers say increased demand for paper from newer investors such as fund managers and pension funds have pushed spreads from levels around 50 basis points over Libor (the London Interbank Offered Rate) to as low as 18 basis points over Libor.

The drop in spreads has created a virtuous cycle in the market, says Mr Roger Barris, executive director at Goldman Sachs in London: "More investor demand means tighter spreads, which means more supply, which means more investor demand, which translates into better liquidity."

But where will the issuers come from to feed this growing demand? Building societies may return to the market, say some observers, particularly once the current phase of rationalisation of the industry is over.

As one London banker says: "The big building societies are going through a shakeout – they are acquiring assets and many are considering demutualisation. I'm not sure they will be able to borrow in their own names and they will have more assets to fund. So it's possible that when the sector settles down we may see more building societies coming to the market."

Low spreads have also driven another trend in the mortgage market – refinancing by borrowers. Companies which issued paper at 50 basis points over Libor or more have returned to the market eager to refinance at rates of 30 basis points over Libor. National Home Loans and Mortgage Funding Corporation both took advantage of refinancing opportunities in 1995 and more may follow their example this year.

Some of the slack in the mortgage market has been picked up by securitising commercial property loans. Last year, for example, the United Bank of Kuwait issued securities backed by £108m of commercial mortgages, only the second deal of its kind following a similar commercial mortgage-backed issue by Bristol and West building society in late 1994.

Goldman Sachs, which led both deals, says they were sufficiently successful to attract both issuers back to the market – new deals are due this year.

Another new asset class seen in the UK market last year was credit-card receivables. MBNA International, the UK subsidiary of the world's second largest credit card issuer, MBNA America Bank, went to the market with £200m of senior credit-card backed floating-rate notes in what was the first ever securitisation of UK credit card receivables.

A second similarly-structured issue soon followed from HFC Bank, issuer of the GM card from Vauxhall and a fully-owned subsidiary of Household International, the US consumer finance group.

Securitisation of European assets by US issuers was another feature of 1995. Bankers say US companies with business in Europe are becoming increasingly keen to use the technique there. European investors are becoming more comfortable with asset-backed securities at a time when demand in the US is nearing saturation point. US companies want to stick with forms of financing they know well. And they are keen to tap new investors and help develop securitisation in Europe.

As Mr Ed Charles, head of structured products in London for JP Morgan, says of US issuers: "They will be able to access a new investor base that will make it easier for them to raise finance in future."

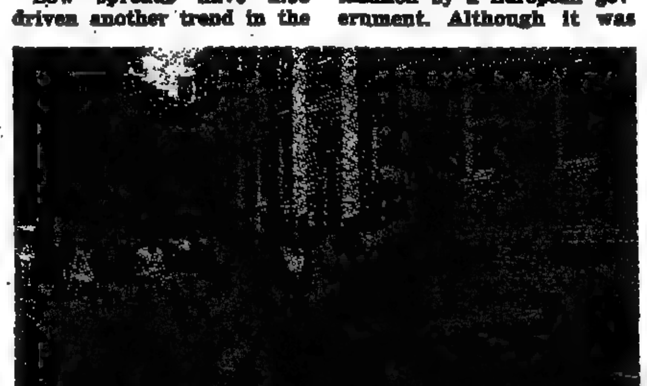
Outside the UK market signs of life have been detected in Spain – where Banco Santander was a prominent issuer of securitised mortgages in what is a growing market – and Ireland, where the government followed the example set by Finland and used a special purpose vehicle to securitise I£140m ($87.5m) of local authority mortgages.

It was only the second securitisation by a European government. Although it was expected to lead to other sales of state-owned assets in similarly structured deals, some bankers believe market opportunities in Ireland will remain scarce. Says one: "I would be surprised if there were more significant flows in the future. The ability of the Irish capital markets to absorb a lot of this paper is limited."

Another development last year was in Germany, a country previously immune to the charms of securitisation. In April Rheinische Hypothekenbank, a German mortgage bank, raised secured finance against a section of its mortgage portfolio. GEMS German Mortgage Securities, a new Utrecht-based financing vehicle, sold DM520m ($361m) of five and ten year notes to pay for the acquisition of residential and commercial property loans owned by the bank.

Although securitisation of mortgage and other consumer loans is rare in Germany – the authorities do not like anything they believe dilutes the quality of assets and weakens the link between lender and borrower – the securitisation of a junior portion of Rheinische Hypothekenbank's loans could eventually spawn similar deals.

Mr Charles of JP Morgan, which led the GEMS deal, says: "It was a structure which generated a lot of interest when it came out. A lot of people are looking at it carefully." He believes there is a "good likelihood" that other GEMS-type deals could be forthcoming in Germany.



Seat of earning: deals backed by student loans gave good yields

Emerging market bonds: by Tracy Corrigan

Markets rebuild after Mexican blow

Wise after the event, investors are becoming more discerning in their buying

Emerging market bonds were one of the worst performing asset classes in the bull market of 1995. The year started disastrously. Following a devaluation in December, Mexican debt prices collapsed, dragging other emerging markets down too. The nadir was reached in March. *Since then, there has* been a sporadic recovery, culminating in a strong end-of-year rally which has brought prices back to pre-crisis levels. But yield spreads of dollar-denominated Brady bonds relative to the US Treasury market, which grew dramatically in the wake of the crisis, have not yet returned to December 1994 levels.

Mexican bonds put in the worst performance. By the end of the year, stripped Brady bond yield spreads had recovered to more than 1,000 basis points over US Treasuries, still almost twice as wide as pre-crisis levels. The performance has been disappointing given the strong performance of the US Treasury market, which typically pulls emerging market issues, especially Brady bonds, up with it.

"The market didn't die after the devaluation but the recovery has been modest compared with other asset classes," admits Mr Aidan Freyne, head of emerging market debt at Salomon Brothers Europe.

International investors had several reasons to stay away last year. First, they lost heavily in the price collapse. Second, US fund managers, the largest sub-group among them, could earn handsome returns by investing in their domestic market. Third, investors have been re-assessing emerging *market risk*.

The catalyst for Mexico's collapse was its burgeoning current account deficit, a problem compounded by the government's reliance on short-term financing using dollar-denominated debt, through the now notorious Tesobonos market. As pressure on the peso mounted, it became clear that the government would face severe difficulties repaying, or refinancing, this debt. Whether or not the crisis was exacerbated by the rapid departure of foreign cash is a moot point. There was anecdotal evidence to this effect at the time, but subsequent reports suggested that in fact domestic investors had been the first to move out.

The crisis has highlighted the dangers of investing in economies with large current account deficits.

Mexico's difficulties continue to cast a shadow over the whole of Latin America, thanks to its traditional status as the benchmark market in the region. The shock of the peso devaluation is still working its way through the economy, which continues to be dampened by high interest rates. The granting of emergency loans by foreign governments and agencies has saved bond holders from big losses, but the repayment costs carried by Mexico are high.

> Yields of bonds from eastern Europe are well below Latin American levels

The economy is expected to return to growth this year, but from a very low base, having contracted by around 10 per cent for several consecutive quarters. And the country still has political problems.

There are signs that investors have started to differentiate more between Latin American markets. For example Panamanian bond prices rose more than 30 per cent last year, even though Mexican bond prices fell. Similarly the yields of Ecuadorean stripped Brady bonds ended the year around 1,600 basis points over US Treasuries, compared with under 1,000 basis points for Panamanian bonds. This reflected Ecuador's political and economic problems, which included a border conflict with Peru and an energy crisis.

Latin American borrowers rapidly regained access to the international capital markets. In fact the amount of new eurobonds issued in 1995 is second only to the bull market of 1993. The total amount of eurobond offerings reached just over $23bn, compared with less than $18bn in 1994 and around $26bn in 1993, according to West Merchant Bank. However borrowers had to pay substantially higher spreads. Sovereign borrowers dominated the market. Lower quality companies found it difficult to raise funds, unless they used asset-backed financing.

The best performances among emerging markets last year came from eastern European countries. Economies in the region were less severely hit by the Mexican devaluation than Latin American counterparts. Poland and Bulgaria both outperformed the US Treasury bond market, with Polish debt prices boosted by the award of an investment grade credit rating. Eastern European bond yields are now substantially below Latin American levels. Stripped Polish Brady bonds, for example, yield around 550 basis points more than US Treasuries. Local government securities in Czechoslovakia and Poland also attracted fresh investors last year, reflecting confidence in the domestic currencies.

The prospects for all the emerging markets in 1996 look rosy. Latin American countries are "fundamentally in better shape, with a clear commitment to pursue economic reform," says Mr Ousmène Mandeng, a director of West Merchant Bank. *It is likely* that international fund managers will return to the emerging markets. With the US long bond yield at around six per cent, US investors are getting hungry for higher yielding securities.

Japanese investors are also starting to look overseas again. With low inflation and low growth in the US, a stable Treasuries market is likely, providing an ideal environment for emerging markets to improve. There is a catch though: if the US market suffers a sharp reversal – for example if short term interest rates start to rise due to inflationary pressures – the emerging markets will also be hurt. They might well outperform the US market on the way down, but this would be of little comfort to investors.

Derivatives: by Laurie Morse

Geared securities gain supporters

Trading volumes fell but geared instruments won new acceptance with investors

The year just past may turn out to have been a watershed period for derivatives when these instruments – considered "exotic" as recently as 1992 – *became accepted* as an essential ingredient in the mainstream of global finance.

Derivatives – essentially contracts that allow traders to disassemble and exchange the risks and rewards of underlying investments – were badly hit in a series of highly publicized trading scandals, such as the collapse of Barings Bank, early in the year.

As 1995 drew to a close it became apparent that, while those problems caused dealers *and end-users to re-examine* their methods of managing derivatives and derivatives risk, use of the instruments was acceptable.

Similarly legislative action to curb derivatives use had been avoided, and regulators at local and international levels were working together to codify the best practices for the world derivatives marketplace while trying to avoid limiting innovation in the industry.

Perhaps a good testimony to *the pervasiveness of* derivatives in everyday finance came in late December, when the Bank for International Settlements (BIS) released the results of a survey that put the underlying, or "notional" value of outstanding over-the-counter derivatives contracts at an astounding $41,000bn.

The BIS survey, which was far broader than volume assessments conducted periodically by such trade groups as the International Swaps and *Derivatives Association*, more than doubled previous estimates for the size of the derivatives market, which only two years ago was thought to amount to no more than $12,000bn. The BIS data was collected in March and April from 2,400 respondents in 26 countries.

However, capital flows generated by derivatives contracts, rather than their underlying notional volumes, are what is at risk when markets move. *The BIS gave a conservative* estimate of this amount, saying replacement value for the world's derivatives contracts was 4.3 per cent of notional value, or about $1,700bn.

On a regional basis, dealers note that last year's north American derivatives turnover did suffer from the trading scandals, and that activity in the over-the-counter markets in Europe became more muted. One cause was cyclical – low interest rates during 1993 caused the derivatives industry to grow rapidly in both regions as customers injected leverage into their portfolios in search of higher yields.

During 1994 those investors experienced the down side of leverage as world interest rates rose, and the appetite for these trades declined. By 1995 dealers say, demand for derivatives had returned to "traditional" uses – tailored risk management with relatively low leverage components.

Asia remained relatively new territory for derivatives sales last year, and was a region of explosive growth.

Volume on the listed derivatives exchanges did suffer last year, with exchange executives pointing to a lack of interest rate volatility, rather than high-profile derivatives calamities as the primary reason. "If you think about it the Fed adjusted interest rates five times last year (1994) and only twice this year," says Pat *Arbor, chairman of the* Chicago Board of Trade, where the bulk of the world's US Treasury bond futures are traded.

Excluding Brazil, worldwide turnover in exchange-traded financial futures and options fell 11 per cent from 244.4m contracts in the second quarter to 217.5m contracts in the third quarter of 1995, according to BIS data. For the first nine months of last year, exchange volume was down 9 per cent year-on-year.

By the end of the third quarter activity in interest rate products on US exchanges was 17 per cent below 1994 levels, with products like the Chicago Mercantile Exchange's eurodollar futures suffering the most significant volume losses. There was little sign of recovery in the fourth quarter. Volume in CME 3-month eurodollar deposit futures was off 36 per cent in November on the previous year. Associated options contracts experienced a similar decline.

Still, as 1995 drew to a close, dealers were cautiously optimistic for a steady flow of new derivatives business in the coming year. Modest easing in interest rates in late December by the US Federal Reserve brought short-term US rates back to historically low levels last seen in 1993.

Interest rates in Asia and across much of Europe were as low as they had been since 1968. In Japan, an extreme example, theoreticians were talking about the implications of negative interest rates.

"I think we're getting to the low end of the interest rate cycle," says Mr Bill Winter, managing director of JP Morgan's derivatives operations. In this environment, he believes: "Customers who are savers will be seeking high-yield enhancements."

Mr Winter was quick to add that this does not mean a return to highly leveraged instruments. Instead, clients will look for moderately enhanced returns with derivatives strategies that limit risk.

Other dealers noted that the low interest rate environment will motivate customers who are seeking to preserve low borrowing costs to engage in trades with increasingly longer maturities. This trend is already reflected in a batch of data released by the Office of the Controller of the Currency, one of the agencies that regulates US commercial banks.

OCC figures showed that the notional value of short-term derivatives with maturities of less than one year held by US commercial banks fell 2.5 per cent in the second quarter of 1995 to $8,800bn. However derivatives with remaining maturities of one to five years increased by 6.7 per cent, to $3,500bn. The OCC's preliminary second quarter data also showed that derivatives with maturities of five or more years experienced the fastest growth rate of the three maturity categories, at 6.9 per cent, although they still comprised the smallest group, with only $763bn of total notional value.

Narrow margin: traders have avoided legislative curbs — Jack Bader

Agent Bank

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■ **US government bonds:** by Lisa Bransten

Market firms as inflation eases

Interest rate rises checked growth in goods prices and rewarded Treasury bond investors

A year ago the consensus among Wall Street economists was that with the economy picking up steam, inflation would return and erode the value of US Treasury bonds. The consensus was wrong.

Even though gross domestic product growth jumped to more than 4 per cent at the end of 1994, prices remained in check. Through the course of 1995 economic growth moderated and consumer prices only rose 2.6 per cent from the previous year.

An environment of modest economic growth and low inflation was the best of all possible worlds for US Treasuries. Total returns on long term bonds soared, helping to erase memories of 1994 – their worst ever year.

Hopes that the supply of bonds would fall if the government could cut the budget deficit helped yields to tighten. And not even an increasingly acrimonious debate on how to balance the budget could succeed in dashing those hopes.

The Lehman Brothers index of 10-year to 30-year Treasury bonds generated total returns of nearly 31 per cent last year, the third best result since the investment bank started the index in 1973. In 1994, by contrast, the index fell 8 per cent.

Bond yields – which fall as prices rise – slid to their lowest levels since 1993. The yield on the benchmark 30-year Treasury bond ended 1995 at 5.94 per cent, nearly two full percentage points below where it began the year.

Economists credit a series of interest rate increases by the Federal Reserve from February 1994 through early last year with slowing the economy gently and preventing the emergence of inflation – a bond investor's biggest enemy.

By July the economy had slowed enough for the Fed to lower interest rates, citing receding inflationary pressures. That brought a momentary end to the rally as strengthening inflation and consumer spending numbers worried investors that the Fed had stoked the economy too soon.

A month later a new round of data – including much weaker-than-expected figures for job growth – suggested that economic growth was not as strong as the July statistics indicated and bonds resumed their upward course.

In December with still no sign of rising prices, the Fed once again cut interest rates.

Some of the money feeding the bond rally last year came from Japan, where the government passed a series of measures designed to promote foreign investment and the central bank reinvested the dollars it purchased to help bolster the US currency.

Figures from the Ministry of Finance show that Japanese investment in foreign bonds surged to $42.7bn in the first six months of last year compared to $19.8bn in all of 1994. While not all of that money went to the US, Japanese investors' share of US Treasury debt rose to 7.1 per cent by August compared to 5.5 per cent at the end of 1994, according to figures from the Treasury department and Smith Barney, the broking house.

In contrast US mutual fund investors hardly participated in the bond rally. They withdrew more than $10bn from bond and income funds in the first half of the year, and only about half of that outflow was reversed by the money that began to trickle into the funds in July, reports the Investment Company Institute.

While increased interest from small investors may boost prices this year even the most bullish analysts do not believe bonds will repeat last 1995's performance.

Economists estimate the long bond could end the year with a yield anywhere from 5 to 7 per cent. Bearish analysts think a less than credible deficit reduction plan or a resumption of inflationary pressures could dull some of the market's recent glow.

A view that is more common on Wall Street is that the Fed has expertly stamped out inflationary pressures and will remain vigilant against any resumption.

Mr Allen Sinai, chief global economist at Lehman Brothers, believes that long term yields could fall as low as 5.5 per cent by the third quarter of this year, but not without some bumps along the way.

In the short run "long term interest rates may well back up higher before moving down again," he says. "A lot of good news has been built into the fixed income markets making them very vulnerable to any disappointments."

Stable consumer prices benefited bonds and shoppers Wanda Goodwin

■ **German government bonds:** by Conner Middelmann

Bunds bottom out

The let-up in inflation pushed price levels to unsustainably high levels last year

After a strong run in 1995, German government bonds, or bunds, are likely to remain more subdued for the rest of this year. Most of the good news – low inflation and slow growth – is already reflected in prices.

Unlike the raging bull run in 1993, which was followed by a dramatic reversal in the first months of 1994, the 1995 bond market rally is expected to lose momentum only gradually this year.

Most analysts forecast a further decline in long-dated yields this year – albeit a more modest one than in 1995. Others are calling for a small rise in yields by year-end as the turn in the interest rate cycle approaches. Moreover as bund yields approach the likely bottom of the current cycle, trading could be marked by more volatility than last year, when yields trended gradually lower.

The yield on the benchmark ten-year German government bond ended 1995 at 5.97 per cent, down from 7.65 per cent 12 months earlier. While bunds were nowhere near the top performers in Europe, they posted a solid year-on-year return of 16.8 per cent in local currency terms, according to JP Morgan.

Much of European bond markets' strong performance was fuelled by the sustained rally in US Treasuries. But bunds were also helped by a fundamental revision of Germany's short-term interest rate outlook.

"At the beginning of 1995, the euromark curve implied that rates would be stable or higher by the end of the year. But that forecast changed dramatically and a revision to interest rate expectations caused the yield curve to steepen sharply," says Mr Graham McDevitt, senior bond strategist at Paribas Capital Markets.

This shift in the interest-rate outlook was made possible primarily by easing inflationary pressures. The appreciation of the D-mark early last year dampened economic growth while keeping import prices down. A "pact for jobs" agreed last spring by the IG Metall engineering union, which involved a zero wage-round in real terms for 1997 in return for job creation, improved prospects for a moderate wages round in 1996.

The rebasing in September of the consumer price basket brought consumer price inflation down from above 2 per cent to as low as 1.8 per cent in December. These developments were accompanied by three half-point cuts in the Bundesbank's discount rate to 3 per cent.

Bunds also benefited from buying by investors switching out of French and Italian investments because of concerns about France and Italy's political and economic problems.

All this fanned the bund market rally, especially among shorter maturities, causing the yield curve to steepen sharply. The yield differential between two and ten year bonds widened from 112 basis points at the beginning of the year to as high as 271 basis points in late December. Investors were reluctant to venture too far out along the curve amid uncertainty over the future of European Monetary Union.

There are several reasons for short-term caution, Mr McDevitt says. A corrective sell-off in the US Treasury market – possibly on profit-taking after the passage of the US Budget – could spill over into the D-Mark market, he warns.

Paribas' latest survey of investors shows that their exposure to the D-Mark market has increased to near saturation levels. And lastly there is DM45bn of supply to be absorbed during the first quarter of which DM37bn will be ten-year paper.

"When these factors are taken in conjunction with the psychological impact of yields being near the 1993 lows, we look to 10-year bund yields to range between 5.90 and 6.35 per cent in the coming one to two months," he says.

However, in the medium term McDevitt expects low inflation, slow growth and further Bundesbank easing to support bunds. "We therefore recommend buying on expected weakness in the first quarter since 10-year bund yields can tumble toward 5.5 per cent during the second half."

Others aren't quite as optimistic. "After the rate cuts in December, the Bundesbank will probably wait another three to four months to observe the most important indicators," says Mr Armin Kayser, German economist at SBC Warburg in Frankfurt. "After that period, it will probably find that a further cut in interest rates will not be necessary." He expects the German economy to start bouncing back in 1996, helped partly by tax reforms.

Inflation is unlikely to rise significantly – the market is predicting 2 per cent. But M3 – cash in circulation, current accounts and short-term deposits – is "likely to accelerate markedly in the first half of 1996," Mr Kayser says.

Although credit lending to private individuals and companies will probably continue between 5 per cent to 7 per cent the economist predicts: "With yields below 6 per cent, investors are likely to scale down their commitment to bonds, thus slowing down the capital formation that helped keep M3 growth low in 1995."

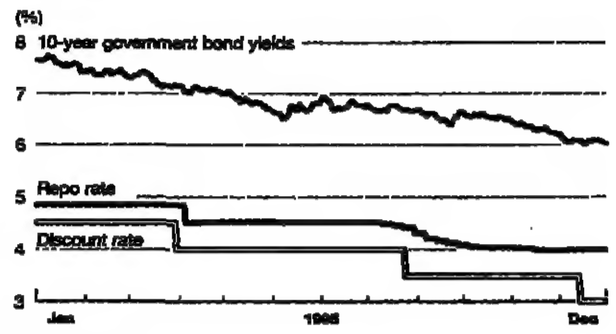
This would put a stop to interest-rate easing by the Bundesbank and might even encourage it to raise key rates in the final quarter of 1996, he says. Consensus predicts the first rate increase in early to mid-1997. With few positive surprises left to help the bund market, Mr Kayser expects bund yields to finish the year at 6.7 per cent, after spiking as high as 7.3 per cent in six months' time.

Bouts of political jitters could rattle the bund market sporadically, especially just before March 24, when the states of Baden-Württemberg, Rheinland-Pfalz and Schleswig-Holstein hold their state elections.

The performance of the FDP, Chancellor Kohl's junior coalition partner, will be closely watched after its trouncing in all recent state elections. But even if the party fails to enter the regional parliaments many observers do not expect early elections.

All in all a more volatile year lies ahead. "While the underlying fundamentals are still positive, the absolute fall in yields last year means that gains in 1996 will be modest in comparison with 1995," predicts Mr McDevitt of Paribas Capital Markets.

Germany



Source: FT Extel

■ **Japanese government bonds:** by Emiko Terazono

Banks and JGBs fall from favour

Poor credit ratings and big bond issues are putting upward pressure on funding costs

The attractiveness of the Japanese government bond market is declining because investors expect paper to be issued in increasing volumes to fund revenue shortfalls.

The Ministry of Finance recently alerted the financial markets to this by announcing that government revenues in fiscal year 1996 will fall short of outlays by Y11,520bn ($115bn) due to lower tax revenues and increasing interest payments. Issuance of new Japanese government bonds (JGBs) totalled Y23,000bn this fiscal year. It is expected to drop to Y20,000bn next year, or 4.2 per cent of GDP, with bonds intended to cover the deficit accounting for Y10,000bn.

The new issues are expected to boost the outstanding amount of JGBs from Y230,000bn at the end of the current fiscal year to Y240,000bn at the end of next fiscal year.

On the spending side, the government is aiming to secure an economic recovery by supporting public works projects. Politicians are expected to call for more construction spending ahead of the next general election, which is likely to be held next summer.

During the past few months the Bank of Japan and the government's Trust Fund Bureau have supported the extra supply of JGBs with outright purchases. Institutional investors have also bought government bonds actively. It is unclear whether they will continue to do so.

With yields currently below 3 per cent, the returns on 10 year government bonds do not look attractive. "Institutional investors will be realigning portfolios to put more emphasis on domestic equities, counteracting the government's efforts," says Mr Akio Yoshino, senior economist at Credit Suisse in Tokyo.

Life insurance companies increased their total assets by 2.3 per cent to Y182,000bn during the first five months of the fiscal year. The institutions increased investment in domestic bonds by Y6,500bn, exceeding the net increase in assets while selling a net Y1,000bn in Japanese equities and Y400bn in foreign securities. As a result, Japanese government bonds account for over 20 per cent of total assets, up from 18 per cent last March.

In order to secure demand for the extra bond supply, analysts say the government needs to diversify its issuance with short and medium term instruments. Most funding is currently raised by selling 10-year government bonds. The secondary market for long term bonds is the only really liquid one.

Mr Cameron Umetsu at UBS Securities in Tokyo believes that the launch of a five-year bond market would help alleviate the burden on 10-year bonds. The government has already issued some four-year and six-year treasury bills. So far it has avoided issuing five-year bonds as five-year debentures have been the main source of funding for long-term credit banks.

This is set to change. The government will launch a five-year JGB futures market in February, paving the way for it to sell five-year paper. Other big issuers are diversifying the maturity ranges of their liabilities. Companies have begun to issue five-year bonds and banks are poised to launch deposit accounts with the same maturity. And long term credit banks are considering bringing four and six-year debentures to the market.

The Bank of Japan has spent the latter half of the year trying to keep down short term rates in the face of the country's banking crisis.

Japanese banks have to pay more for overseas funding than comparable foreign credits – a phenomenon known as the "Japan" premium". This has raised short-term domestic yen rates. Banks seeking dollars have funded themselves through the domestic market, then changed the yen proceeds into US currency.

The Japan premium is the result of a spate of bank failures. It was exacerbated by the Daiwa Bank debacle in New York – a $1bn loss stemming from a 10-year trading fraud which has angered the US financial authorities. This has encouraged foreign investors to see Japan's banks as untrustworthy and operating outside regulatory norms.

Even though the Japan premium has fallen it will not disappear, due to lingering concerns over bad loans. This is preventing domestic rates from falling to customary levels.

Japanese depositors are as worried about the state of the banks as foreign investors, despite positive seasonal factors and a brighter economic outlook, putting upward pressure on short term interest rates. They are placing more money with the state-run postal savings system and less with the banks, thereby starving them of funds.

Government projects could dig the economy out of trouble Ashley Ashwood

■ **French government bonds:** by Richard Lapper and Pilar Junco

Slowdown could hit prices

Investors have lost faith in the administration's ability to meet growth targets

Over the last two years foreign investors have sharply reduced their holdings of French government bonds, cutting their stake in outstanding official debt by more than a quarter. Political uncertainty and volatility in the French bond and money markets have been the main reasons.

Despite France's consistently low inflation in recent years, bond and money market yields have remained consistently higher than those in Germany. For much of 1995 the 10-year yield spread over German government bonds – one of the main yardsticks used by the markets to measure political risk – moved between 65 and 85 basis points, rising to more than 100 basis points at one stage in October. And at the short end of the yield curve the spread over Germany is more than 100 basis points.

At the core of the market's concerns is the ability of the government to meet the Maastricht criteria for economic and monetary union, and, in particular, reduce the fiscal deficit from its current level of just over 5 per to a target of 3 per cent of GDP by 1997.

These worries came to the fore in the last two months of 1995 when public sector workers took strike action in protest at plans to reduce welfare spending. Earlier in the year the resignation of Mr Alain Madelin, the finance minister, caused consternation after investors had welcomed his commitments to cut spending.

A measure of confidence has returned following the settlement of a long strike by railway workers before Christmas. Over the year as a whole holders of French government paper recouped much of the ground lost in 1994 – they made total local currency returns of 17.12 per cent according to JP Morgan. Even so analysts and dealers are predicting a difficult year ahead. The main reason is the shadow which the drop in growth is casting over the government's economic plans. Since last summer a string of figures have indicated an economic slowdown, reducing expected proceeds from taxes and hitting deficit projections.

Earlier this year the government forecast that GDP would grow 2.8 per cent in 1996 from an expected 2.5 per cent in 1995. These estimates have been revised downwards over the last few months. GDP growth in the fourth quarter is even expected to be negative as a result of the strikes. Early in 1996 local newspapers reported that official growth projections for 1996 had been cut to between 1.5 per cent and 2.5 per cent. According to the December consensus of economic forecasts the markets were – even before the latest government statement – expecting growth of only 1.9 per cent.

According to analysts every 1 percentage point reduction in growth could increase the fiscal deficit as a percentage of GDP by between 0.5 and 0.6 per cent. As a result government commitments to reduce the deficit to 4 per cent by the end of 1996 and 3 per cent by the end of 1997 are already being regarded sceptically by the markets. HSBC Markets, for example, estimates that the deficit will reach at least 4.7 per cent of GDP in 1996.

There are hopes in some quarters that the government will be able to stimulate the economy by easing monetary policy, a shift signalled through cuts in both the five to ten day securities repurchase rate and the more important intervention rate towards the end of the year.

Analysts are confident that further cuts are likely in the first quarter, especially if the Bundesbank continues to reduce German interest rates through cuts in the securities repurchase rate.

But the government's policy of tying the value of the franc to the stronger D-Mark imposes limitations. Attempts to reduce the gap between short-term French and German interest rates could prompt investors to sell francs, pushing the currency out towards the limit of its 15 per cent fluctuation band against the D-Mark.

In the longer term analysts believe that if the government is unable to convince the markets of the efficacy of its reduction plans it will either have to renegotiate an extension of the Maastricht deadline or devalue the franc.

"The French government is in a vice. On the one hand it faces the need to meet the Maastricht criteria. On the other there is a pronounced slowdown in economic activity. Something has to give," says Mr Mark Cliffe, senior international economist at HSBC Markets.

All of this signals another volatile year on the markets. For the time being further downward moves on interest rates ought to make the short end of the yield curve attractive for investors, although the persistence of currency risk could make the very short end of the curve too risky.

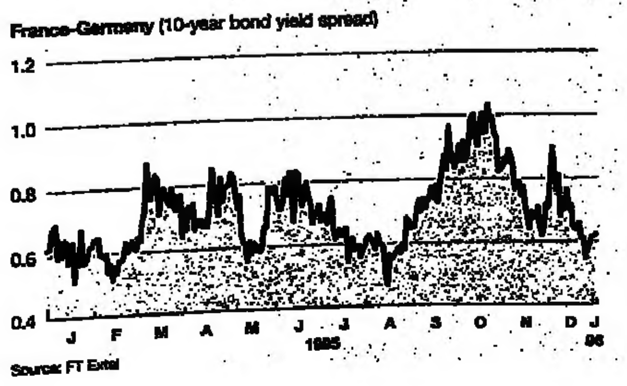
Mr Graham McDevitt, senior bond strategist with Paribas Capital Markets, argues that investors should "avoid the very front end of the curve despite the fact that the authorities are keen to lower short-term interest rates".

He recommends that they invest instead in three and five year bonds. And Mr Eldred Buck, head of research at Fimat in Paris, says the market is already discounting "quite a lot in short-term rates".

At the longer end of the curve, the yield spread over Germany has narrowed marginally since Christmas, oscillating between 60 and 70 basis points in the two weeks to January 5. But already there are renewed signs of social unrest, with the threat of industrial action against new social taxes. Analysts argue that further strike action will push the spreads out to between 80 and 100 basis points between the middle and end of the year. Mr Cliffe at HSBC believes it could go out even wider to 120 basis points. "The window for the market to rally in is fairly narrow," says Mr Cliffe.

Yield spread

France-Germany (10-year bond yield spread)



Source: FT Extel

■ **High-yielding European government bonds:** by Richard Lapper

Bull run is set to falter

Swedish, Spanish and Italian yields could rise

After a difficult beginning to 1995, investors in Europe's most popular high yielding bond markets enjoyed a good year, with Swedish bonds providing the best returns. So-called "convergence trades", which assume a continuing fall in the yields of Italian, Spanish and Swedish government bonds towards levels current in core European markets such as Germany and the Netherlands, are again in fashion.

Analysts expect that these trades will continue to offer good value for the first few months of 1996 but are sceptical about prospects later on.

In Italy and Spain in particular, progress in reducing deficits and debt in line with the Maastricht criteria for European Monetary Union has been slow. In addition the "high yielders" could be very vulnerable to a shift in investor sentiment towards international bonds later this year if, as is expected, the authorities in Germany and the United States stop easing monetary policy and increase interest rates.

"This bull run will run out of steam if not by the end of the first quarter then at least by the end of the first half," concludes Mr Ken Wattret, international economist at HSBC Markets in London. "It can't last forever."

In the first quarter of 1995, the high yielders were knocked back after last December's shock devaluation in Mexico triggered a flight of capital from the high-risk emerging markets of Latin America and a general aversion towards higher risk markets in general. Uncertainty on the currency markets coupled with signs of escalating inflationary pressures in Italy and Spain, following the introduction of new indirect taxes, added to the gloom. Italy was worst hit with the 10-year yield spread of Italian over German bonds rising to a high of 652 basis yields in mid-March. Swedish and Spanish yields also rose sharply.

Subsequently the high yielders recovered quickly. This was for a variety of reasons. First, monetary easing in Germany and the United States fed through into a gradual decline in yields in core markets, leading investors to recapture their appetite for higher yields. Second, the strength of the US dollar towards the end of the year helped bolster the peseta, lira and krona against the D-Mark. Third, economic fundamentals and political prospects also began to improve in each of three economies.

● In Spain the prospect of consumer price inflation of less than 4 per cent in the first quarter of 1996 and the perception that the right-wing opposition Partido Popular was likely to win general elections this year, began to attract capital flows back again. The ten-year yield spread over Germany dropped from 535 basis points on March 30 to a low of 361 basis points on December 19. Local currency returns of 19.39 per cent obtained from Spanish bonds made the country Europe's second most attractive market.

● The Italian market was dogged for much of the year by continuing uncertainty over the future of the government of Mr Lamberto Dini, and, in particular, his plans to reduce the country's budget deficit, which at more than 7 per cent of gross domestic product is one of the highest in Europe. Even so yields on Italian government bonds fell appreciably last year, with the 10-year yield spread dropping from a mid-April high of 655 basis points to end the year closer to five percentage points.

In December a burst of investor optimism over budget prospects helped Italian bonds perform strongly, contributing to a 2.85 per cent total return for the month, and increasing the annual return to 18.05 per cent.

● Sweden performed particularly strongly, impressing the markets with its efforts to reduce inflation and indebtedness. Mr Wattret says that by the end of the year it differentiated itself from fellow high-yielders and was on the way to becoming a "semi-core" market like Denmark.

Having peaked at 454 basis points early in April, the 10-year yield spread of Sweden over Germany fell by more than two percentage points to a low of 246 basis points at the end of November. In domestic currency terms investors in Swedish bonds enjoyed returns of more than 20.23 per cent over the year as a whole, according to JP Morgan's government bond index monitor, a higher overall return than any other European market.

The question for investors as they assess the prospects for high yielders in 1996 is the character and longevity of this rally. Analysts and traders expect it to continue at least as long as German interest rates remain low, effectively extending it well into 1996.

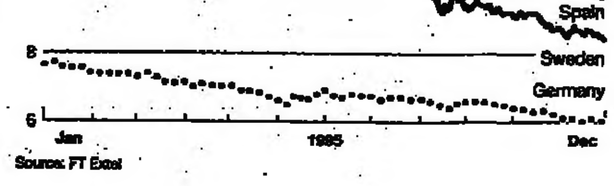
Continuing good news on the macro-economic front should ensure further contraction in yield spreads over Germany with Spain and Sweden widely expected to breach the 350 basis point and 220 basis point levels respectively. Italian yield spreads could fall to as low as 450 basis points.

Looking further ahead the picture is a good deal more murky. For yields to fall further and spreads to drop towards levels achieved early in 1994 when the yield spreads of Spanish government bonds over Germany equivalents fell to less than two percentage points, all three countries will need to make more sustainable progress on the economic front. And there is some scepticism on this issue. Mr Michael Burke, senior economist with Citibank, says "Convergence trades are always popular when the Germans are cutting rates. But for a more sustainable trend to emerge there will have to be a smooth passage to Emu. It seems outlandish to me to suggest that either Italy or Spain will take part in Emu on schedule."

The obstacles, according to Mr Burke include high levels of indebtedness in Sweden and Italy and fiscal deficits and possible inflationary problems in Italy and Spain.

Mr Wattret at HSBC concludes: "The factors which pushed the markets down sharply in the first quarter have not really gone away."

10-year government bond yields



Source: FT Extel

US equities: by Lisa Bransten

Index rally sparks issues

The US recovery pushed up share prices and brought companies to the market

"You know its time to get out of the market when your dry cleaner and your plumber start giving you stock tips," one real estate broker in New York said last December as the Dow Jones Industrial Average (DJIA) tumbled 100 points.

Those were the sort of nerves that gripped the market at the end of 1995 after more than a year of soaring shares.

In February, the Dow crossed through the 4,000-point barrier and hardly looked back. By November, when the Dow sailed through the 5,000-point level, it seemed as if the index could cross a century mark a week.

Shares were wobbly at the end of the year, but both the Dow and the more broadly traded Standard & Poor's 500 finished 1995 more than 33 per cent higher – the largest one-year gain since 1996.

Economists attribute the strong market to a confluence of favourable events including productivity gains from corporate mergers and restructurings, corporate share buybacks and loads of new money flowing into mutual funds.

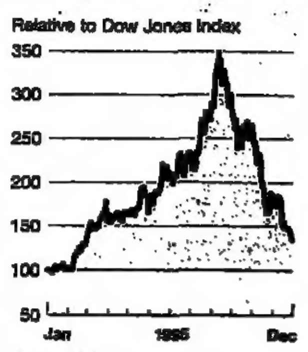
For much of the year, big companies surprised investors with stronger-than-expected earnings even as the economy slowed. Analysts at Massachusetts Financial Services believe that operating earnings by S&P 500 companies, which will be reported later this year, will be $38 a share, up 15 per cent from 1994, partly due to a 19 per cent productivity increase.

A wave of bank mergers – including the merger between Chase Manhattan Bank and Chemical Banking that will create the biggest bank in the US – helped spur gains among financial companies. The financial sector, with total returns of 50.9 per cent, turned in the year's strongest performance just ahead of health care and technology, according to Lehman Brothers research.

In the early part of last year, the market was led by technology shares. Through the summer, software companies and personal computer makers gained ground amid publicity surrounding the release of Microsoft's Windows 95. Semiconductor makers rose on signs that prices would increase as demand for chips outpaced the demand.

Micron Technology

Relative to Dow Jones index



Source: FT Extel

Micron Technology, which makes semiconductor components, is illustrative of the roller-coaster ride experienced by many high-tech firms. The company's shares started the year at about $22 and soared to $94⅞ by September. But by October, worries began to emerge that investors had overestimated the shortage of chips and Micron tumbled to $39⅝. That left the company with a gain of 80 per cent for the year despite the year-end tumble.

Thus even as technology shares faltered at the end of the year, the drops were from such astronomical levels that most companies finished the year with impressive gains. That helped the Nasdaq composite, which is nearly 40 per cent technology shares, to outperform other indices by rising more than 39 per cent.

All that demand for high-tech stock led to a booming market for initial public offerings (IPO) of technology companies. Last year saw more than 200 high-tech companies float, raising $7.7bn, the most since a record 223 such companies floated shares in 1983, according to Securities Data.

Among 1995's notable IPOs was Netscape Communications. The maker of internet software went public in early August for $28 a share. By December 3 shares in the company, which has had only one profitable quarter, had more than sextupled to $171 a share.

Such valuations made even the most bullish investor nervous, leading the shares to end 1995 off its year high at $139, but that still gave the company's shares the astronomical valuation of more than 990 times annualised earnings.

Mr Jeffrey Applegate, chief investment strategist at Lehman Brothers, is optimistic about the prospects for the market next year, but he does believe there is "speculative froth" in the internet sector. "But," he says, "I would have shorted Netscape at $90. So what do I know?"

On a more serious note he thinks that the Federal Reserve eliminated some risk to the market by lowering target short-term interest rates last month. He expects another decrease at the end of this month.

Even the most bullish analysts believe there is room for some disappointment in the market as economic slowing finally catches up with corporate America and investors get a few unpleasant earnings surprises.

Mr Ed Yardini, chief investment strategist at Deutsche Morgan Grenfell in New York, has become famous on Wall Street for his proclamation that the Dow will hit 10,000 in the year 2000. He is, however, increasingly worried that the economy could go into recession next year and that presents a near-term risk for the market before it resumes its climb.

In general, Wall Street is optimistic that 1996 will be another strong year for equities although only a few analysts say that it will produce a repeat of 1995's gain of more than 30 per cent.

Mr Jon Fossel, chairman of Oppenheimer Management, says: "Trains do not go straight up mountains – they cut back and forth on the way. Investors who have become used to the steady upward climb of the DJIA must learn that riding out a correction is a normal part of investing and may create buying opportunities."

Japanese equities: by Emiko Terazono

Issuance only for the brave

New cash calls could come from semi-public concerns, new ventures and banks

A subdued stock market and modest corporate investment targets restricted equity issuance by Japanese companies last year.

The prolonged economic slump and low business confidence has checked commerce's appetite for capital. James Capel in Tokyo estimates that new issues of equities and derivatives totalled Y2,100bn ($20bn) in 1995, down 60 per cent from the previous year. According to a report by the Nomura Research Institute demand for external finance from a group of over 230 of Japan's leading manufacturers fell by Y1,630bn for the year to last March.

Past tense: the economic slump made 1995 an anxious year for traders in Japanese financial markets. Reuter

The listing of NTT Data Communications System, a subsidiary of telecommunications giant Nippon Telephone and Telegraph (NTT), on the second section of the Tokyo Stock Exchange in April captured the attention of investors. The success of the company's public offering followed the listings failures of East Japan Railways in 1993 and Japan Tobacco in 1994 and demonstrated enthusiasm for telecommunications-related issues, particularly among retail investors.

The company split off from its parent in 1988, three years after NTT was privatised. Public works projects account for 40 per cent of its total revenue though it is trying to increase its business in system development for the private sector.

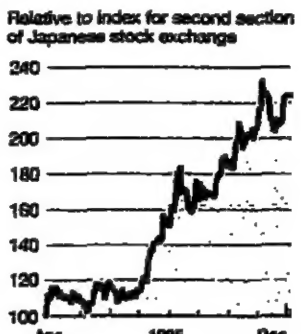
Issues from service sector and software-related corporations have boosted the over-the-counter (OTC) market. Trading volume for the first 11 months of 1995 totalled 2.5bn shares, topping the record of 2.35bn shares set in 1994.

A total of 137 companies made their debut on the OTC in 1995, up 29 per cent from a year earlier. Total funds raised increased sharply too. Kleinwort Benson in Tokyo reports that OTC companies raised Y197bn during the first ten months of last year. In 1994 the total was Y59.4bn.

Two equity financings accounted for 50 per cent of capital raised last year. The issuers were Softbank, a computer software distributor, and Shokoh Fund, a venture capital corporation, which raised Y87.4bn and Y11.5bn respectively. Concerns bringing initial public offerings included Daiseki, a waste disposal company and Cats, a pest exterminator.

NTT Data Communications

Relative to index for second section of Japanese stock exchange



Source: FT Extel

Corporate start-ups should be able to raise funds from a new market in 1996. In order to solve the financing problems that face many fledgling enterprises the ministry of international trade and industry and the Japan Securities Dealers Association are expected to launch a second OTC market with less stringent listing criteria.

The regulated stock markets have been out of bounds to entrepreneurs as a source of venture capital. The government has reserved them for larger companies. The ministry of finance has also been loath to allow investors to take bigger risks, laying down strict requirements for start-ups who wish to list. The recurring profits of businesses planning to join the OTC market must total at least Y20m. This excludes smaller firms with growth potential and imposes high financing costs on start-up companies.

Analysts believe that if the Japanese OTC adopted more liberal US listing requirements the number of public offerings by venture companies would triple.

Legislative changes last June have paved the way for a second OTC that will offer high risks and high returns. A working group is currently drawing up a framework for a market for high-technology ventures. New entrants will have to support a ratio of research and development spending to sales of at least 3 per cent. They can be losing money at the time of their public offerings, provided the securities firms managing their listings consider that they are innovative and have high growth potential.

This year the government may sell shares in some of the businesses in which it holds stakes, including East Japan Railway and Nippon Telephone and Telegraph. These disposals, which James Capel in Tokyo forecasts could raise Y500bn, have been postponed over the past few years due to the sluggishness of the stock market.

Companies are considering buying equities back from the market to create a more favourable environment for share prices after April when the government will implement measures to remove double taxation on dividends. Amway Japan and Asahi Breweries have already announced their decision to buy back some of their shares. Few companies are likely to follow their lead, unconvinced that the buy backs have any benefits for them.

Banks may meanwhile issue preferred shares to boost their capital ratios. They are aggressively writing off bad loans and are likely to seek capital to offset the erosion of profits due to further write offs, often involving debts run up by *jusen* or housing loan companies.

There is still a debate over who would buy the preferred shares – whether public funds will be used or whether deregulation will allow the creation of bank holding companies which will purchase them.

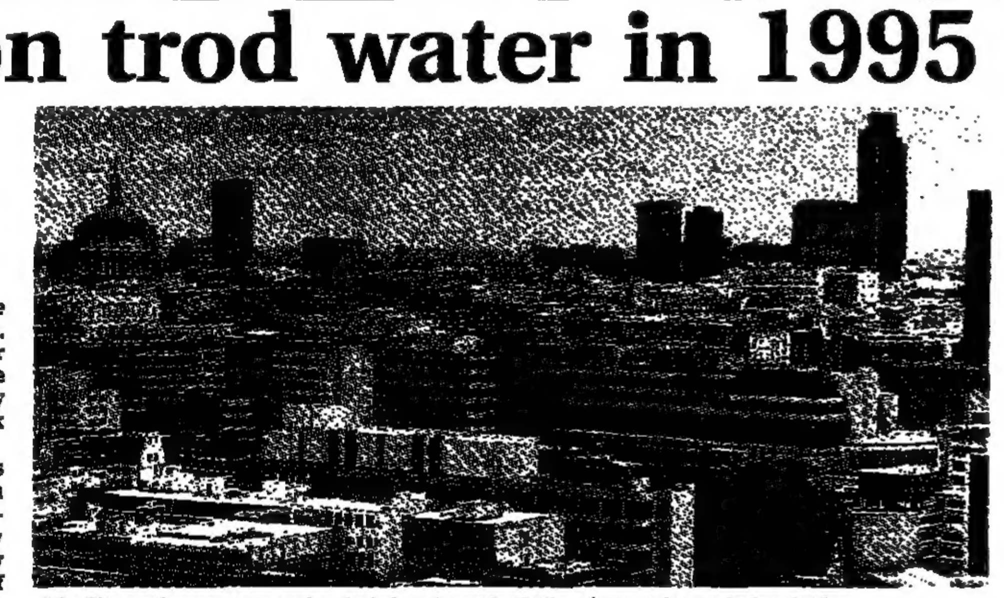
UK equities: by Jeffrey Brown

London trod water in 1995

Unimpressed with most new issues, investors focused on tax efficient share placings

Despite an impressive performance from share prices, which climbed to new best-ever levels, 1995 was not a vintage year for the supply of equity capital by the London stock market.

The flow of new equity funds was weak in comparison with 1994's bumper output. According to estimates prepared by SBC Warburg, total new equity raised last year fell short of £11bn, compared with a figure of around £22bn in 1994.



Picky City: as the year wore on London's investment institutions became increasingly selective

The SBC Warburg estimates suggest that the downturn came across the board, although the new issue market was hit the hardest.

Privatisations and debt buybacks fell from £6.5bn to an estimated £2.5bn in 1995. Rights issues, which came close to £11bn in 1993, provided just £4bn, down 20 per cent on the previous year. New issues slumped to £4bn after providing £10bn in 1994.

The slowdown in capital supply looks incongruous when set against the strength of share prices. Last year, after a slowish start, the FT-SE Actuaries All-Share Index closed with a net advance of around a fifth.

London share prices moved determinedly sideways over the first three months of 1995 but thereafter mostly climbed steadily higher. So why was the London stock market's funding machine not made to work harder?

The slowdown in new issuance was partly a natural cyclical swing after the strong flow of new funds in 1994. "These things always go in cycles so some sort of natural slowdown was to be expected", says Mr Neil Austin, head of new issues at KPMG Corporate Finance. But this is only part of the answer.

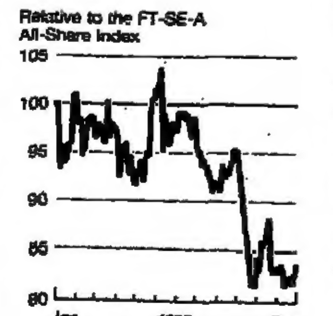
Negative sentiment after some of the previous year's new issue failures was the main check to flotations. Many potential investors simply backed away from the new issues market. Rights offerings were hit by genuinely slow demand given relatively strong corporate liquidity. There was also something of a shift by some borrowers to share placings.

The new issue market started the year deep in the doldrums and although there was some pick-up in the second half remained very subdued in contrast to 1994.

According to international accountants KPMG the first nine months produced just £1.8bn of new money via 61 issues, with an offering from McBride, the own-label household products and toiletries group, contributing £215m. The same period of 1994 period produced accounted for 177 new issues and £7.7bn of new funds.

British Land

Relative to the FT-SE-A All-Share index



Source: FT Extel

Institutions were unenthusiastic about many of the companies bringing issues. "The investing institutions became much more selective as the year progressed. There was a growing reluctance to invest and quality became the keynote", Mr Austin says.

This trend to selectivity among investors sprang partly from heavy portfolio commitments in earlier years. Some of the smaller-company investment funds, which tend to specialise in flotations, had overstretched themselves.

Nonetheless the main problem was sentiment. Several flotations launched in 1993 and 1994 turned out to be duds.

"Quite a number of participants, both big and small, got their fingers burned, and there was a marked reluctance among investing institutions to throw good money after bad," says one prominent corporate financier.

The big flotation specialists, the brokers and securities houses that handle new issues, were not short of candidates. Plenty of companies wanted to float on the London Stock Exchange in 1995. But given the weakness of new issue uptake most brokers advised clients to keep their offerings on the back burner.

A number of brokers report a healthy queue of new issues waiting to come forward in 1996. Low inflation and low interest rates are creating a favourable climate for equity investment.

However potential issuers will continue to play a wide field. There has been a clear shift to more tax and cost efficient forms of unlocking wealth. Trade sales – the purchase of a company by another business rather than by stock market investors – have begun to make inroads into the market for flotations.

The greater tax flexibility enjoyed by direct share sales has come to take on fresh meaning. According to Mr Austin the requirements of becoming a public company have grown increasingly onerous – and uncertain, with a general election in the offing.

Rights issues were also hit by competition from more cost effective forms of fund raising. If the rights issue bandwagon slowed there was no shortage of share placings. Property giant British Land raised £325m in this form, following up a £125m placing in March with a £200m sequel later in the year.

French equities: by John Pitt

Cool response to Pechiney

Problems with the economy boosted the state's cash needs but made sell-offs harder

Last month's privatisation of Pechiney, the aluminium and packaging group, illustrated just how difficult it has been to bring share offerings to the French stock market.

The state raised less than FFr25bn ($5bn) from the sale of assets during 1995. This was about a third of the total for 1994 and just over half the amount for 1993.

The lacklustre performance of the French equity market has hampered share sales. The CAC-40 index of leading shares staggered along while other global markets attained new record highs. The election of a new president, Mr Jacques Chirac, and of a new government led by Mr Alain Juppé, provided an initial boost. But the enthusiasm fizzled out when it became clear that the new administration would be unable to meet election pledges to cut unemployment.

During the last few weeks of 1995 the country was mired in industrial action as unions protested angrily, and in force, against government plans to reduce social welfare benefits, an issue that lies at the heart of the government's attempt to meet Maastricht criteria. This means cutting the budget deficit from 5 per cent at present to 3 per cent by 1997.

Bankers consider that the Pechiney sale was the most difficult of last years' privatisations to complete, due to the dismal state into which the French domestic economy had descended. Earlier in the year the state had brought Usinor Sacilor, Europe's largest steel producer, and Seita, a tobacco company, to the market.

Usinor had been scheduled for sale under the previous Balladur administration. The share price soon fell away: having been issued at FFr86 in the summer the shares were trading at FFr64.71 just before Christmas. The sale raised about FFr10bn for the state.

Shares in Seita, the tobacco company best known for its Gauloises and Gitanes brands, have performed much better. The asset sale could even be described as a success compared to those that followed. The shares were issued at FFr129 and shortly before Christmas were trading in the FFr170 range.

Groupe Bull's issue involved a complex two-stage privatisation process aimed at reducing the state's holding to under 60 per cent. The company, which had lost about FFr20bn over the last five years, carried out a tough restructuring programme and made a statement that it expected to return to profit in 1995. During the course of 1995 the company sold equity stakes to Motorola of the US and NEC of Japan, as well as France Telecom.

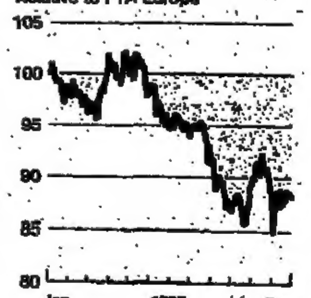
Pechiney was the real test of the government's ability to sell shares in a big company in the worst of circumstances. Just before Christmas the government said that the privatisation had been subscribed to 1.2 times and that, as a result, the total number of shares issued to subscribers had been raised to 13.2m from 11.5m.

Institutional investors were to receive 11.6m shares, of which 19 per cent were earmarked for domestic investors. The rest would be split between the US, with 31 per cent, and the rest of the world, with 50 per cent.

The French finance minister, Mr Jean Arthuis, gave credit for the relative success of the privatisation to the soundness of the company. Fund managers say that the tireless promotion of the group in the weeks leading up to the issue by Mr Jean-Pierre Rodier, the chairman, helped to ensure the sale's eventual completion.

CAC 40

Relative to FTA Europe



Source: FT Extel

The government was forced to scale down the size of the offering just before the launch, because of weak demand during the period before the issue. As a result it was left with some 9 per cent of the company's equity, and received proceeds of only around FFr4bn, as against earlier forecasts of between FFr5bn to FFr6bn. Priced at FFr187, the shares ended 1995 trading at FFr185 each.

The government plans to make further sales this year, including the sale of assets in Elf Aquitaine, Total, Renault, France Telecom and Thomson, the electronics group.

But if 1995 was tough, this year is likely to be much tougher. Selling shares in Renault could be a particular problem as the outlook for the European motor industry becomes bleaker. Following the partial privatisation of the company in November 1994 the shares have gone from the issue price of FFr165 to around FFr145 just before Christmas.

The domestic economy is expected to weaken further and most analysts are adopting an underweight position in the equity market for this year.

For instance, JP Morgan is forecasting GDP growth of 1.3 per cent during 1996, making France one of the slowest growing European economies. Corporate profit forecasts are also falling. The prospects for successful flotations during the year look less than optimistic.

German equities: by William Cochrane

Telekom issue impends

A big sell-off of state assets could mop up much of the demand for new issues

Last year German companies raised an estimated DM24bn ($17bn) from equity issues, down from some DM29bn in 1994. Issues from companies coming to the market for the first time accounted for a record DM8.69bn of that total compared with just DM1.2bn in the year before.

Some observers think that flotations are coming into vogue as business families controlling the *Mittelstand*, Germany's broad swathe of medium sized but mostly unquoted companies, realise the benefits of going public and officials step up efforts to make public share ownership, running at a meagre 5.4 per cent of the population, more attractive.

Other observers believe that many of the newcomers came to the market in 1995 to avoid having to compete with this year's Deutsche Telekom float, the first slug of which was originally estimated to raise between DM15bn and DM20bn.

It is now thought unlikely to bring in more than DM15bn, all of which will go to the company, leaving the German government to seek privatisation proceeds at a later date. In recent months investors' appetite for telecom shares has been satiated by a glut of new issues around the world. At home German utilities are promising to offer serious competition in the telecoms field. Adding to the gloom, Deutsche Telekom said at the end of November that sales over the next five years may fall below recent forecasts.

The issue is unlikely to happen until November but given the weight of it, brokers are not expecting the total for other flotations this year to break out of a DM3bn to DM5bn bracket.

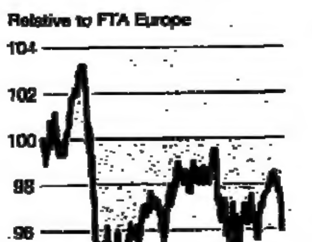
This is still good by domestic standards. In 1992 and 1993, says Mr Hans-Peter Wodniok at Crédit Lyonnais in Frankfurt, newcomers brought only around DM800m a year into the market compared with DM2.3bn, DM3.1bn, and DM3.1bn again in 1989, 1990 and 1991 respectively.

This year in addition to the Telekom flotation German equity markets could field the partial sell off of Lufthansa, provided, says Mr Wodniok, that the government can solve the problem of keeping the airline in German hands. There should be numerous smaller new offerings but the timing of rights issues from quoted companies – potentially much heavier in volume – is likely to depend on opportunity.

Last year rights issues from companies already quoted on the stock market fell from just under DM28bn to around DM15bn. The businesses and their advisers were quicker to respond to equity market possibilities in 1994 than potential new issuers and their advisers.

Dax index

Relative to FTA Europe



Source: FT Extel

The picture for 1996 is cloudy. "You need a positive market," says one broker. "When stock markets are weak, companies hold back".

Stockbroker Merck Finck argues that the market has been weak for the past ten years. The Dax index of the top 30 German stocks may have risen by 8.2 per cent last year but, says the broker, the Dax has been treading water since the end of 1993, and the key index has seriously underperformed the Morgan Stanley Capital International European average since 1985.

Mr Matthias Welticke, a strategist at Merck Finck argues: "There is a strong correlation between the fall of the US dollar since 1985 and the relative underperformance of German stocks." The German corporate economy, and particularly the blue chip Dax index, is heavily laden with cyclical stocks like car and chemical makers, whose prices, profit margins and growth prospects have been seriously affected by the slide in the US currency, as well as in customer currencies in Europe. So what are the prospects for German equities and for issues of shares by German companies during the rest of 1996? Mr Welticke believes that the long period of D-mark strength is due for a correction. German investors are notoriously prone to move on technical grounds. He notes that the dollar tested its historic lows during the sell off in the spring of last year. Since then it has bottomed out for ten months. Moving average lines indicate that a trend reversal is under way.

With the dollar recovery also supported by fundamentals, Mr Welticke sees a lot of potential this year for shares, which should benefit from the favourable interest rate and liquidity environment. "The chance of Germany reversing its ten year relative underperformance trend", he says, "are now greater than ever." It is becoming clear that companies which address the topic of shareholder value are being rewarded by the market. In recent months many have cut the nominal value of their shares from DM50 to DM5 a share to make them more liquid. Others, like Hoechst, have demonstrated their commitment by putting powerful strategies in place – in Hoechst's case, by building up its pharmaceuticals interests – and discussing this with shareholders, analysts and the press.

Hoechst's reward has been a rise in its share price relative to relevant indices. When it wants more money from shareholders its task will be that much easier.

Worldwide privatisations: by Brian Bollen

Surfeit of state sell-offs

Governments' hunger for cash is outstripping investors' appetite for shares

Privatisation is still expanding worldwide with 1995 marking a new record high. The total value of flotations and trade sales of state-owned businesses rose to $73bn from $64bn in 1994 according to Privatisation International magazine. There were some $10bn of deals in December alone.

The driving forces behind the trend for governments to sell assets to private interests are as strong as ever. These include the belief that the commercial sector runs businesses better. But domestic budgetary considerations are more important for most governments. "Everybody wants to sell as much as possible, as quickly as possible, for as high a price as possible," says one investment banker.

This hunger for cash explains why governments have pressed ahead with privatisations in conditions which would discourage private sector companies from bringing offerings to the market. "The edge went off privatisation in 1995," says Mr David Hatt, of the Salomon Brothers equity capital market syndicate desk in London, "But the supply just keeps on coming."

Telecommunications was one of the most active sectors in 1995. A glut of further issues is expected in the next few years. "There are enormous amounts of telecoms equity coming through the pipeline over the next few months," says Mr Francis Maude, global head of privatisation at Morgan Stanley International.

Investors can afford to be selective. Many have reduced share buying in anticipation of the privatisation of Deutsche Telekom later this year. For example the second tranche of Koninklijke PPT Nederland, the Dutch telecoms and postal services company brought to the market by ABN Amro, was smaller than expected due to muted investor response. But it was still the largest single privatisation of 1995 at around $3.5bn.

The $1.7bn flotation of Indonesia's PT Telekom was poorly received. The offering was scaled back and priced at the bottom end of the indicated range. The large number of global co-ordinators appointed to run this issue – Goldman Sachs, Lehman Brothers, Merrill Lynch and SG Warburg were joined by four local investment banks – contributed to its problems. "There were too many cooks in the kitchen," observes one banker.

PT Telekom's offering was the largest share offering ever from an Indonesian company and the largest Asian deal of the year. "Rather than be seen as a failure, it should be regarded as a miracle that such a large deal could be done at all for an emerging market," argues one banker.

The flotation of Portugal Telecom, the largest Portuguese privatisation to date, set another new benchmark in telecoms. With Union Bank of Switzerland, SBC Warburg, Merrill Lynch and Banco ESSI as global co-ordinators, this issue received special mentions in industry awards as one of the more successful initial public offerings of 1995.

The privatisation of British Rail is proving one of the most complex yet attempted in the UK, and has already generated fees for many banks. Their number includes Hambros, arranging the £1.8bn sale of the three rolling stock companies in what the UK Secretary of State for Transport Sir George Young described as "the largest privatisation by direct sale".

Other banks filling a variety of advisory roles on the privatisation include SBC Warburg, Samuel Montagu, Hill Samuel, Kleinwort Benson and Merrill Lynch, while N M Rothschild is advising on the flotation of Railtrack, scheduled to take place later this year. All involved can take heart from the highly successful $1.7bn privatisation of 100 per cent of Canadian National Railways, which was Canada's largest privatisation yet and also its largest ever IPO.

Although the UK's privatisation campaign continues to provide the blueprint for most state sell offs around the world, Spain has been more innovative. The use of a novel retail incentive structure for the privatisation of Repsol, the Spanish oil company, enabled global co-ordinators Goldman Sachs and Banco Bilbao Vizcaya to lay claim to a clutch of deal of the year awards. "This technique is cheaper than a bonus share scheme," says Mr Dante Roscini, an executive director at Goldman Sachs International in London, explaining how domestic retail buyers were effectively given a 10 per cent one-year money-back guarantee, "It also makes for a more stable shareholding."

The first privatisation of an Italian industrial company, ENI took place during 1995. At around $4bn, this represented the largest equity offering from Italy and the third largest equity deal yet in the oil and gas sector. Pechiney of France's $1bn flotation went ahead despite difficult conditions, including widespread strikes, the worst civil disturbances since the Paris riots of 1968 and the fear of a large scale devaluation.

It will be a long time before the stock of state businesses that can be privatised runs out. The volume of sales planned worldwide means there is still plenty of work ahead for the investment banks. Large volumes of issuance coupled with greater selectivity from investors has put a high premium on good advice.

Top 10 privatisation advisers 1995

	Global co-ordinator	No. of deals	Value ($m)
1	ABN-Amro	1	3,438
2	BZW	4	3,329
3	CS First Boston	4	3,039
4	Kleinwort Benson	4	2,472
5	SBC Warburg	8	2,279
6	Merrill Lynch	6	2,004
7	Istituto Mobiliare Italiano	1	1,983
8	Credit Lyonnais	2	1,714
9	Goldman Sachs	3	1,677
10	Paribas	3	1,611

Source: Privatisation International Note: proportional value credited

International equities: by Antonia Sharpe

Telecom issues pall

Smaller offerings of private companies fared better

On the line: traders marked down telecoms companies Reuter

Last year the international equity markets were like a spaghetti Western – dominated by "the good, the bad and the ugly".

The "good" deals were initial public offerings (IPOs) from companies in sectors with strong growth prospects. Many of these were high-technology companies or well-known consumer brand names from Europe and the US.

Offerings from Gucci, the Italian fashion house, Adidas, the German sports shoe and equipment manufacturer, and BESI, a Dutch manufacturer of capital equipment for the semi-conductor industry, were heavily over-subscribed because of the certainty that the shares would rise once they started to trade.

Several offerings by companies whose shares were already listed on an exchange were also successful, including a sale of shares in BSkyB by Pearson, the owner of the Financial Times. Pearson's disposal in September was structured to enable BSkyB to qualify for entry into the FTSE 100 Index, thereby generating demand from index funds. Pearson sold its shares at 358p each but by the end of the year the shares were trading at 405p each.

Unigate's disposal in December of a holding in Nutricia, the Dutch baby food manufacturer, had a similar result. The removal of the uncertainty about Unigate's intentions towards the company and the increased liquidity in the shares prompted the share price to jump from Fl 120 ($75), the price Unigate sold at, to Fl 129 shortly after the transaction. A capital increase by Commerzbank in the form of a secondary offering, also had a positive result on the share price, which rose from DM320 ($223) to DM336 by the end of the year.

In stark contrast to the runaway success of many corporate IPOs, most privatisations qualified as "baddies", mainly because of the lukewarm response of international investors. US investors were particularly reluctant to participate because they were diverting funds away from foreign equities to their own booming stock market.

International investors felt that the privatisations were too big, too expensive and generally in sectors they were not that keen on. There was too much supply from companies in the telecoms and steel sectors.

There were exceptions: the privatisation of Sweden's Nordbanken was snapped up by investors wanting exposure to the return to health of the country's banking industry. The privatisation of Eni, Italy's oil and gas company, can also be seen as a success.

Although the deal had to be scaled back and the shares had a rocky stock market debut, close to $4bn was raised for the government despite a weak domestic stock market, an uncertain political outlook for the country, and cool international sentiment towards privatisations.

But on the whole privatisations fell from favour in 1995. The year started off badly with the decision by the Austrian government to postpone the planned sale of shares which it holds in the specialty steel manufacturer, Bohler-Uddeholm. Sentiment improved slightly in late spring with a successful offering by Spain's Repsol and the privatisation of Portugal Telecom.

By the end of the summer, market conditions had worsened once again following a poor debut by Usinor Sacilor, the French steel company. Telecoms offerings in Spain and the Netherlands attracted a disappointing response from international investors.

The autumn's highest profile casualty was the privatisation of PT Telkom, Indonesia's telecommunications company. It had to halve its offering to $1.59bn because of the lack of demand from the US.

But of all the privatisations, France's were the most "ugly". In December the government compounded its problems by pressing ahead with the privatisation of Pechiney, the aluminium and packaging group, despite warning signals from the market. Having lost large sums of money on Usinor Sacilor, whose share price fell as low as FFr55.50 from an issue price of FFr86, domestic and international investors alike dug in their heels when the government offered Pechiney for sale. Although there was unexpectedly good demand from the US, the offering had to be scaled back and the shares priced at the bottom of the range. Despite this the shares fell as low as FFr167 from an issue price of FFr187.

Bankers hope that investor sentiment will improve so that this year's heavy timetable of privatisations can go ahead.

In the first quarter of 1996, Italy is likely to sell its remaining stake in Ina, the insurer, and possibly float off Enel, the electricity company. The UK's privatisation of Railtrack and another tranche of shares in Spain's oil and gas company, Repsol, are also expected.

The rest of the year will be equally busy with a further sale of shares in the Spanish banking group Argentaria. Bankers also expect offerings from the Austrian energy and chemicals group, OMV; the French insurer AGF; car maker Renault and possibly France Télécom. The Brazilian government is planning to sell all or part of its $5bn holding in Companhia Vale do Rio Doce (CVRD), the metals mining giant in what is expected to be the largest international offering from the region.

The biggest single privatisation by far is set to be the elephantine privatisation of Germany's Deutsche Telekom which could raise as much as $10bn through its initial public offering.

A wide range of other corporate IPOs are being prepared. These include the flotations of Hutchison Telecommunications, the operator of the Orange mobile phone network in the UK, and Grupo Sol, Spain's biggest hotel company. Bankers also expect a spate of high technology IPOs from European companies, following the success of such offerings in the US in 1995.

Privatisations may be hard going this year. One way for governments to avoid the problems they experienced in 1995 would be to price their deals cheaply and keep them to a manageable size. This course of action would help guarantee success, particularly if US investors warm to foreign equities this year.

Top 10 bookrunners international equity issues 1995

	Adviser	Value ($m)	No. of deals	% share
1	Goldman Sachs	8,288	81	15.8
2	Swiss Bank Corporation	5,357	40	14.3
3	Merrill Lynch	5,234	53	14.0
4	Morgan Stanley	4,594	47	12.3
5	Dresdner Bank	3,680	20	9.8
6	CSFB/Credit Suisse	3,168	26	8.5
7	Paribas	3,088	10	8.3
8	Union Bank of Switzerland	2,560	12	6.9
9	Barclays Bank	1,821	9	4.9
10	Lehman Brothers	1,604	24	4.2

Based on 100 issues worth $52.5bn Source: IFR Data Securities

Project finance: by Conner Middelmann

Industry hungry for capital

Delays in Enron's power project in India underlined the hazards of political risk

The international market for project financing has grown exponentially in recent years, and there is no slowdown in sight.

With many developed countries shifting key industries from the public domain into the private sector and developing nations seeking to finance huge infrastructure programmes, demand for venture capital is expected to remain buoyant.

On the supply side cash-rich commercial banks, which have watched their margins in the general purpose corporate loan market shrink drastically over the last two years, are keen to place some of their assets in higher-yielding investments which pay interest margins of between 100 and 300 basis points over the London interbank offered rate (Libor).

"The last five years have seen tremendous growth in the project finance sector, driven mainly by the growth of natural resources industries such as oil and gas exploration, mining, forestry; the shift of former public-sector entities – power, waste, water, telecoms – into the private sector, and infrastructure development," says Mr Jan Prins, head of global project finance at ABN AMRO Bank.

Most project financing takes place in capital-intensive industries, which require large sums of money over a long period of time and offer relatively predictable future income patterns. Projects tend to be financed by a mix of equity and debt at equity/debt ratios ranging around 20 to 80. Debt is usually provided by commercial banks and multilateral agencies, while the equity comes from the sponsor who is often joined by supranational agencies and specialist institutional investors.

A key source of activity in the project finance field this year has been the ongoing media revolution, with private operators laying extensive cable networks for television and telephone transmission.

"Cable TV and telecommunications in the UK and Western Europe have created a lot of business for banks this year, both on the advisory and the lending side," says Mr David Parker, director of project finance at NatWest Markets. "It's been a big growth area in the last 12 months and should continue expanding over the next year or two."

However, since most cable projects are financed on a non-recourse basis – where sole recourse for debt repayment is limited to the generation of cash from the project – some banks have been reluctant to get too heavily involved. "Cable is a very volatile industry where future cashflows are hard to predict and banks have to be very flexible," says Mr Rod Morrison, editor of specialist magazine IFR Project Finance International. "Project financing is more suited to projects with a predictable cash-flow, such as as power stations, which often have guaranteed off-take contracts. Cable companies need more flexibility, and have turned increasingly to the junk-bond and equity markets."

Growth in oil and gas exploration has helped give new drive to the project finance sector Shell

The energy sector is another fast growing market for project sponsors and lenders. According to World Bank estimates, the capital requirement of non-OECD countries for energy alone is some $250bn per year, with $75bn of that for the petroleum sector.

The power sector is also becoming an important part of the project finance business. Until recently a monopolistic utility business owned and regulated by governments, the power industry relied traditionally on its stable cash generating capacity. But with the privatisation of the electricity industry and the emergence of independent power generation, funding patterns seem to be shifting in the direction of more commercial bank debt on a project basis.

Moreover, as the industry becomes increasingly globalised, European and US power companies are venturing further afield and bringing their expertise to other countries. Power stations worth some 300GW are thought to be currently under construction in over 40 countries, with Asia and the Pacific Rim seen as the main regions.

However, the amount of capital that will be raised for emerging nations in coming years may be constrained by the inherent risks associated with those investments, especially country risk – economic or political.

Political risks were starkly highlighted last year by the sudden stoppage of a $2bn-plus power project sponsored by Enron, the US energy group, in Dabhol, India. After a third of the plant had been built and with $300m spent on the first phase of construction, the Hindu nationalist government of Maharashtra halted the project last August saying it was too costly, its power tariff too high and its environmental impact negative. Although the project was revived last week after negotiators agreed a reduction in project costs and a lower per-unit tariff rate, its interruption sent shivers down bankers' spines.

"Dabhol made everyone sit up and say, yes, these political risks are very real," says Mr Parker at NatWest Markets. "Before undertaking a project, banks and sponsors have to step back and ask themselves: What's the business rationale for this project? Has a local consensus been achieved? Do we know the country well enough? What will the political opposition do if it comes into power? Should we have local partners?"

One of the things that has prevented the project from collapsing completely despite the disruption has been the strong commitment of its lenders, bankers say. "The Dabhol situation again illustrates the importance of having a group of banks who don't run away as soon as a small cloud moves in front of the sun," says Mr Prins.

Participants can also protect themselves against unforeseen glitches with guarantees from export credit agencies such as US Exim, Japan Exim and the UK's ECGD, or from supranationals such as the World Bank, the Asian and Inter-American Development Banks and the European Bank for Reconstruction and Development.

These guarantees cover specific obligations of governments or state entities, such as long-term power purchase obligations of the state-owned electricity distributor, or the obligation of a central bank to convert the project's local-currency income into hard currency for debt repayment.

"Our programme has been very well received by the project finance market, both by banks and developers," says Ms Farida Mazhar, senior financial officer at the World Bank. "Banks can deal with commercial risk because that can be quantified, but they find it harder to evaluate political risk – especially for the long-term financing these sorts of projects require. By covering some of these risks our guarantee can extend maturities and reduce financing costs."

In the project financing arena, the World Bank has extended one partial-risk guarantee to the Hub River power project in Pakistan and is in the process of providing another to the Uch power project, also in Pakistan.

Not only do such guarantees mean that lenders get their money back in the event of a default; some say they actually make defaults less likely. "When a supranational agency like the World Bank is backing a project, the local government won't want to do anything that might jeopardise its future ability to borrow," says a banker.

Another advantage of getting supranational agencies involved is that they do not back projects which they deem unsound economically, socially or environmentally. "Commercial banks take a lot of comfort lending alongside the World Bank or IFC as they have such stringent criteria," says Mr Parker.

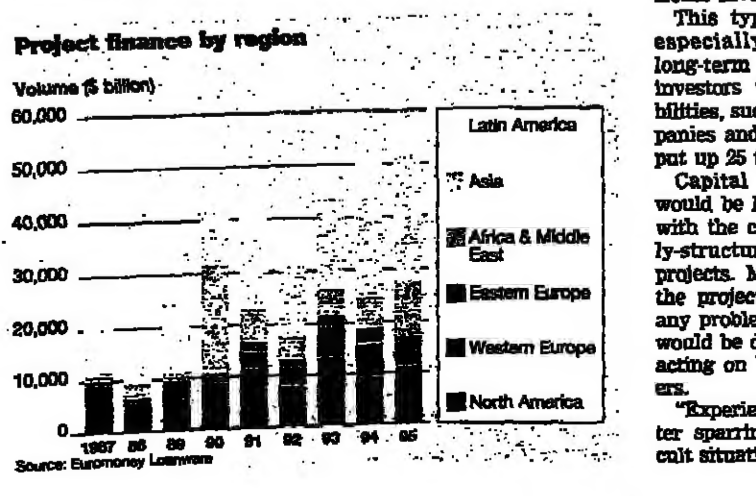
In addition, some developers have begun to tap the capital markets by selling debt to institutional investors in the form of private placements or through the issuance of project bonds placed under the US Securities Exchange Commission's Rule 144a, which restricts placement to professional investors.

This type of placement is especially suitable for long-term projects for which investors with long-dated liabilities, such as insurance companies and pension funds, can put up 25 to 30 year money.

Capital market financing would be hard pushed to cope with the complexity and highly-structured nature of most projects. Moreover monitoring the project and helping solve any problems that might arise would be difficult for a trustee acting on behalf of bond holders.

"Experienced banks are better sparring partners in difficult situations," says Mr Prins.

Project finance by region



Source: Euromoney Loanware

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